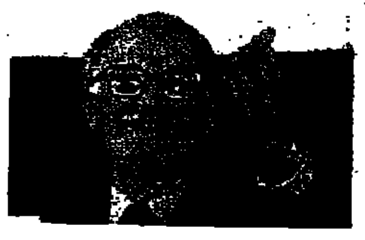
FINANCIAL TIMES

Rhône-Alpes

Lyons looks to the south

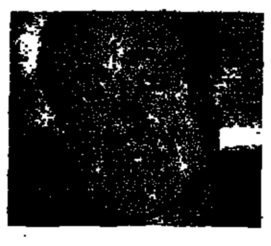
Survey, Pages 15-18



View from the Emi

Cancel the November convergence report

Preparing for Emu, Page 4



French elections

How Jean Tiberi copes with 28 opponents

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Kabila's cabinet

Exiled academics short on know-how

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World Business Newspaper http://www.FT.com TUESDAY MAY 20 1997

Clinton expected to renew China's trade status

US President Clinton was yesterday expected to renew China's Most Favoured Nation (MFN) trade status for another year, setting off a foreign policy battle with Congress - where some members have made clear their intention to try to overturn the decision. Mr Clinton has worked hard to improve ties with Beijing over the past two years but *China's human rights* record, its sale of missiles and technology to regions that are becoming destabilised and its huge trade surplus with the US remain problems. Many are also concerned about the future of Hong Kong when control of the British colony reverts to Beijing on July 1. Some lawmakers have suggested MFN be delayed, or renewed for a shorter time, until they can see how China handles Hong Kong.

Spain to sell $7bn of Endesa: Spain's centre-right government has given the green light to a $7bn sale of more than half the equity it owns in power group Endesa. Page 23

ACC and Deutsche deal: Deutsche Telekom of Germany has concluded a deal with a US-owned telecoms company that should accelerate competition in Europe's largest telecoms market. ACC Telecom, UK-based subsidiary of US telecoms operator ACC Corp, said it had become the first "switchless reseller" of Deutsche Telekom's voice services. Page 22

Worldwide ban on British beef remains:

The UK does not appear to have met all the conditions for lifting the EU's worldwide export ban on British beef, *according to* Emma Bonino (left), European commissioner responsible for food safety. She criticised slow progress in destroying some 100,000 cattle considered most at risk of developing BSE. Page 13

Forex trade: The prospect of European monetary union has largely destroyed trading in the currencies expected to join it. For months the currencies likely to merge have barely budged against one another. Page 4; Lamfalussy confident over start of Emu, same page.

Billion dollar BA: British Airways announced annual pre-tax profits up 9.4 per cent to $1bn, helped by its decision to reverse the write-off two years ago of its stake in USAir. Operating profits fell 25 per cent to £546m. Page 23 and Lex, Page 22

Music on line plan: Record company EMI, which numbers the Beatles and the Spice Girls among its artists, is negotiating to sell music on line, setting an important precedent for the industry. Page 22; BBC internet move, Page 12

Tractors keep a grip: Stable farm prices and a healthy world economy are expected to keep global tractor sales buoyant at around 450,000 a year until 2000, according to Fiat-controlled manufacturer New Holland. Page 11

$5,800 for dinner: The case of a Danish tourist who was charged $5,800 for a meal in a Budapest restaurant has caused an outcry in Hungary, a country earning an increasing proportion of its income from tourism. Page 2

JCI-Lonrho talks: *South African* mining group JCI president Mzi Khumalo met Lonrho chief executive Nicholas Morrell to discuss proposals for a £2bn ($3.2bn) merger of JCI with the London-based conglomerate. Page 23

Coffee prices: A near-80 per cent rise in *world coffee prices this year could force* manufacturers to change their policy of holding minimal stocks. Page 23

Nuclear weapons watch: The International Atomic Energy Agency has agreed measures to detect clandestine production of weapons-grade nuclear materials. Page *10*

Tiger plays for Amex: Golfer Tiger Woods, 21, has signed a reported $30m, five-year contract to promote American Express.

Round-the-world record: Frenchman Olivier de Kersauson set a new round-the-world sailing record, shaving nearly three days off the old record by circling the globe in 71 days, 14 hours, 18 minutes and eight seconds.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	7,285.80	(+11.13)
NASDAQ Composite	1,340.87	(+0.14)
Europe and Far East		
CAC40	2,784.28	(+8.27)
DAX	3,604.55	(+42.44)
FTSE 100	4,645.2	(-48.7)
Nikkei	20,409.75	(+165.02)

US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.215%
Long Bond	96⅔
Yield	6.9%

OTHER RATES

UK: 3-mo Interbank	6⅔%	(6⅝%)
UK: 10 yr Gilt	101⅛	(101½)
France: 10 yr OAT	closed	(100.2495)
Germany: 10 yr Bund	closed	(101.68)
Japan: 10 yr JGB	103.7348	(103.3444)

NORTH SEA OIL (Argus)

Brent Dated	$18.65	(18.74)

GOLD

New York: Comex		
(May)	$341.2	(343.9)
London:		
close	$341.75	(344.25)

DOLLAR

New York lunchtime		
£	1.64055	
DM	1.7085	
FFr	5.76315	
SFr	1.4285	
Y	116.01	
London:		
£	1.6386	(1.6375)
DM	1.7072	(1.6941)
FFr	5.748	(5.7066)
SFr	1.4283	(1.4193)
Y	116.19	(115.325)
Tokyo close:	Y 115.9	

STERLING

DM	2.7973	(2.774)

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New chairman plans to build up stakes in foreign companies

Deutsche Bank in policy shift

By Andrew Fisher in Frankfurt

Deutsche Bank, Germany's biggest bank, is planning to reduce its industrial holdings in some of Germany's largest companies and start building up stakes in foreign concerns, said Mr Rolf Breuer, the bank's new chairman.

Such a move would mark a radical departure from its traditional policy of holding large stakes in German industry – including names such as Daimler-Benz, tyremaker Continental and Allianz insurance. The bank has indicated before that it would like to reduce these, but has been inhibited by Germany's high tax rates.

Mr Breuer, who takes over as chairman at today's annual shareholders meeting, said there could eventually be a 50-50 balance between holdings in German companies and those owned abroad. But this would probably not be until the next century and would *depend on how quickly tax* rates were cut.

A reduction in the bank's domestic holdings, with a market value of about DM30bn ($17.7bn), would dampen criticism of the extensive influence over industry wielded by German banks. Mr Breuer said international diversification *would also provide more share*holder value for investors, although the bank would not act like a mutual fund.

"We are a European bank, we want to be the number one bank in Europe and in the euro [single European currency], and we basically have a portfolio of only German holdings," he said. "I have always said we want to Europeanise, *if not internationalise*, our portfolio."

While not specifying what type of foreign holdings the bank might acquire, he said it would take a "global view". This would include Europe, North America and the Asia-Pacific region.

Mr Matthew Czepliewicz, *European banking analyst* at Salomon Brothers, said investors would welcome a cut in the bank's German holdings.

"But they would be a little uncomfortable about an international build-up if the total portfolio was not reduced." He said the best way of selling holdings, without swamping the market, would be to arrange block share placings *with institutions or sell to* industrial buyers.

Mr Breuer said Deutsche would not start reducing its German stakes until the government's planned tax reforms took effect. They are planned for next year but are bogged down in talks between the ruling coalition and the opposition *Social Democrats*.

Under present rates, the bank would be faced with taxes of about 50 per cent on capital gains from sales of shareholdings. It has held some of these for decades and their balance sheet valuation is thus being well below market levels. Some have stemmed or been swelled by A number stem from crises in which the *bank participated in rescue* operations.

The most valuable holding is its 23 per cent stake in the Daimler-Benz industrial group, with a market worth of roughly DM16bn. Deutsche also owns minority stakes in Allianz insurance, Continental, Deutz engineering, Munich *Reinsurance and Philipp* Holzmann construction

Editorial Comment, Page 21

US seeks to modernise its armed forces

By Bruce Clark in Washington and Bernard Gray in London

Mr William Cohen, US defence secretary, yesterday asked Congress to accept a politically painful reduction in military bases and a cutback on expensive aircraft to prepare US armed forces that can dominate the high technology battlefields of the 21st century.

In a strategic defence review *which will lead to furious turf* wars on Capitol Hill, Mr Cohen unveiled cuts in forces which will require two more rounds of base closures, likely to cost tens of thousands of jobs.

The review also called for a reduction of 61,700 in the 1.4m strong US armed forces – a relatively small fall compared with the steep *decline that has* already occurred since the Soviet collapse. However, Mr Cohen wants deeper cuts in support and administrative costs to pay for an updated armed force.

Current generations of weapons are also being slashed, with procurement of the US Navy's latest strike fighter, the McDonnell Douglas F/A-18 E/F cut from 1,000 aircraft to 548. *Even the US Air Force's Lock*heed Martin F-22 stealth fighter is being cut, with 339 being bought instead of the previously planned 438.

Instead, the US will focus on information technologies in what Admiral William Owens, the former vice-chief of defence staff, is calling "a revolution in military affairs".

Surveillance equipment, command and control comput*ers and precision weapons will* be combined to create a "digital battlefield" where commanders have precise information on the location of all forces and targets.

A high priority is also being given to national missile defence, an area which attracts strong support on Capitol Hill. *However, Mr Cohen warns the* project remains high risk as the technologies needed are in their infancy. As a result, the Pentagon is pursuing such technologies cautiously, a policy which has already attracted criticism from right-wing defence thinkers.

Four previous rounds of closures *have already led* to the elimination of about 100 military installations since the end of the cold war. Military bases are among the main employers in states such as Oklahoma and Mr Cohen's native Maine.

At their cold war height, the US forces numbered 2.2m and the defence department was spending $120bn on weapons. The proposed weapons budget for fiscal 1998 is only $42bn, *although the administration* has pledged to increase procurement by 40 per cent in real terms over the next five years.

The basic structure of the armed forces, including the deployment of 100,000 troops in Europe and the same number in the Pacific region, was left unchanged.

Jacques Chirac (left) hugs *Russian leader* Boris Yeltsin during a brief meeting in Moscow at which the French president described the recent agreement between Russia and Nato over the western alliance's expansion as "a personal victory for President Yeltsin". Yeltsin woos hardliners, Page 3

NEC to boost chip output on hopes of upturn

By Michiyo Nakamoto in Tokyo

NEC of Japan, the world's largest semiconductor maker after Intel of the US, plans to lift memory chip production by 18 per cent this year following an improved outlook for the market.

The decision reflects growing expectations of an upturn in the memory chip market *following a period when most* manufacturers have scaled back production and expansion plans in the wake of the sharp downturn in memory prices last year.

NEC forecasts the market will grow at least 10 per cent this year and perhaps as much as 18 per cent. It attributed this to steadier memory prices and higher revenues stemming from the shift to higher-value-added 64-megabit dynamic random access memory chips from the current generation 16-megabit chips.

The company expects the shift to 64-megabit D-Rams, which enjoy higher margins than 16-megabit chips, and the growth in demand for system-on-a-chip products will support the growth of the market.

NEC, one of the most aggressive in ramming up 64-megabit production and with *50-60* per cent of the market, plans to increase 64-megabit D-Ram production from 1m units a month to 3m by the end of the year. Demand for the advanced chips is expanding from servers and workstations to notebook computers, the company said.

NEC also expects buoyant demand for system-on-a-chip products which enjoy high *margins as they require cus*tomised designs to meet specific needs of customers.

NEC sees demand for the chips increasing on the back of expanded markets for set-top boxes for cable and satellite TV, PDC and higher-end workstations offering multimedia functions.

Korean producers, among the largest memory chip

Continued on Page 22

Japan trade surplus surges on back of yen's weakness

By Gillian Tett in Tokyo

Japan's politically sensitive *trade surplus* surged last month as the country's exporters took advantage of the weak yen to sell more products overseas and domestic demand for imports was dampened by tax rises.

The higher *surplus is likely* to fuel concern that any further upturn in Japanese *exports* on the back of the yen's weakness could lead to renewed trade friction with the US. The yen has fallen more than 50 per cent against the US dollar since spring 1995, making Japanese goods cheap in foreign markets.

April's trade surplus was Y831bn ($7.2bn), which was 164 per cent higher than the figure for the same month last year and the biggest rise since January 1992.

Strong sales of cars and computers pushed Japan's surplus *with the US up by 174 per cent* in April, to Y469bn. Seasonally adjusted, however, the data showed that the trade surplus was 88 per cent higher than in the same month a year earlier.

The data helped strengthen the yen in Tokyo trading yesterday. The Japanese currency briefly rose to Y114 against the *US dollar, in sharp contrast to* earlier this month when it had weakened to a four-and-a-half-year low of about Y127.

Economists say April's dramatic surge was flattered by erratic one-month movements, but most agree the surplus is likely to remain on a rising trend. Although Japan's trade surplus attracts immense domestic and international attention because of its political sensitivity, economists said the April data exaggerated the underlying trend.

Monthly data tend to be volatile because they are not seasonally adjusted. And on *a three-month seasonally* adjusted moving average, which economists regard as a more accurate indicator of the long-term trend, the trade surplus is still running below the levels seen in the final quarter of last year, according to Mr Peter Morgan of HSBC James Capel in Japan.

"Special factors exaggerated the rise in the surplus, which should fall back to more sustainable levels in the next month of so," he said.

In particular, the impact of the consumption tax increase at the start of April is believed to have dampened imports, as companies and consumers cut their spending. This contrasts with February and March, when spending rose ahead of the new tax – and as a consequence sucked in more imports.

Lex, Page 22; Falling yen, Page 26; Currencies, Page 31

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NEWS: EUROPE

Jospin seeks to rally left as French election looms

By David Owen in Paris

Mr Lionel Jospin, the Socialist leader, yesterday sought to rally his troops ahead of the final stages of the French general election campaign, saying that everything was still to play for and that a leftwing victory was still possible.

With final weekend polls showing the left gaining ground but predicting the centre-right coalition would hang on to win a much reduced majority, Mr Jospin told voters they could only "have change" by electing a leftwing government. He also responded to rumours that President Jacques Chirac might make a new intervention in the campaign ahead of next Sunday's first round, by demanding a right of reply.

His comments came as the far-right National Front sought to take advantage of the absence from the public eye of many leading figures, on the third public holiday of the short campaign, to promote what it sees as its position as the natural home for protest votes.

Mr Bruno Mégret, a leading National Front figure, used a press conference near Paris to try to lump the other main parties together and to argue, like Mr Jospin, that only a vote for his side would produce real change. Only the National Front, he said, was against Maastricht "without ambiguity". He said the party's objective in the election was to arrive at a position where neither a centre-right nor a leftwing majority could do anything without the National Front.

Opinion polls have indicated consistently that the far-right is likely to win few, if any, seats in the election next Sunday and on June 1. But some observers think it could have an important say in the outcome if enough of its candidates secured sufficient votes to participate in the second round, hence splitting the rightwing vote.

Media attention, meanwhile, continues to focus on Mr Philippe Séguin, Gaullist Eurosceptic increasingly seen as a possible candidate to succeed the unpopular Mr Alain Juppé as prime minister, especially in the event of a narrow rightwing victory.

Mr Séguin used an interview in the weekly Marianne yesterday to explain his position on Europe further, making clear he did not want a new referendum but arguing that different possible "interpretations" of the Maastricht treaty could be used to "adapt" it without renegotiating it.

■ It is increasingly probable the internet, with 360,000 French subscribers, will make a mockery of laws banning publication of opinion polls in the last week of the campaign. Some foreign newspapers are expected to order their own polls, or use those produced for French political parties and publish them on the internet.

Paris mayor takes low-profile approach to poll

Andrew Jack looks at why, despite having 28 opponents, Jean Tiberi has held no public debates

Jean Tiberi: could suffer same disillusionment as Chirac and Juppé

For a politician facing more challengers than in any other race across France, Mr Jean Tiberi has been keeping a very low profile in his bid for re-election to the country's National Assembly.

There have been no public debates with his 28 rivals since the snap campaign was called in late April, only a modest number of carefully controlled and unadvertised "walkabouts" to shake hands with voters, and very few encounters with the press.

But the constituency in question – which spans the opulent districts of Paris' fifth and sixth arrondissements – is no ordinary electoral battleground, and Mr Tiberi is certainly no typical candidate. A member of the ruling centre-right RPR party, he was long-time mayor of the fifth arrondissement, before taking over from his patron as mayor of the entire French capital after his predecessor, Mr Jacques Chirac, was elected president in 1995.

Under the French system, which allows politicians to hold a number of elected positions simultaneously, Mr Tiberi has also enjoyed a seat in the National Assembly in the same district uninterrupted since 1968. Yet for the first time since 1973, he may fail to win a clear majority in the first round of voting next Sunday and be forced to compete with at least one of his rivals in a second round of voting on June 1.

A poll conducted at the start of this month – splashed over the front page of the Parisien newspaper – suggested that he would take 44.5 per cent of the votes in the first round, before subsequently winning with just 53 per cent among an essentially conservative, rightwing electorate.

In the previous general election in 1993, he was elected outright in a single ballot with 53.7 per cent of the votes, with his nearest rival, the Socialist candidate, scoring just 17.3 per cent.

The Parisien poll showed that the National Front and the Communist party – often the beneficiaries of protest votes – were the next most popular parties after the RPR and the Socialists.

But Ms Lynne Cohen-Solal, his new Socialist opponent, is confident that she can put up a strong challenge, pointing out that views of her party have evolved since its heavy national defeat five years ago in the wake of discredited policies and assorted corruption scandals.

"It's frustrating. There is no debate here," she said of the district controlled by Mr Tiberi, under whom "there is clientelism to the point of feudalism, and no real democracy". She provocatively chose a campaign office close to the Rue Mouffetard street market, which has long been one of Mr Tiberi's favourite stomping grounds. "It is to show that there are no fiefs," she said.

The mayor might like his campaign to be seen as a referendum on his policies in the capital city over the last two years, during which time he has tried to take a more "humane", smaller-scale approach to urban redevelopment projects than his predecessor, and created a network of cycle lanes.

Ms Cohen-Solal thinks the decisive factors swaying voters will be those which dominate the national political debate – France's record 13 per cent unemployment rate, and the future of its health and social security system.

Mr Tiberi is likely to suffer from the disillusionment with his fellow RPR allies, President Chirac and Mr Alain Juppé, the prime minister.

But others argue that a more central issue in this particular constituency will be corruption. Mr Tiberi has been placed under formal investigation by a magistrate in relation to FFr200,000 ($35,000) paid by an RPR local authority to his wife for a flimsy consultant's report of questionable value.

He has been attacked for his part in the allocation of city-owned housing at low rents to people including his own children and Mr Juppé.

Most recently, Le Canard Enchaîné, the weekly satirical newspaper, argued that more than 3,000 voters were falsely registered in his district – which has led Ms Cohen-Solal to demand a judicial inquiry.

A number of the district's single-issue candidates have made corruption the centrepiece of their campaign. Mr Jean-Jacques Walter, a businessman and author, said: "The mayor should resign. I had to run to fight corruption. People are disgusted about it."

Mr Tiberi, who dismisses the allegations against him as absurd and politically manipulated, has carried on his mayoral duties while attempting to maintain a low profile.

He was scheduled last Thursday to meet the Paris Saint-Germain football team after their championship match against Barcelona.

But the meeting was cancelled after PSG lost.

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Cannes starts to count the profits of boom

By Andrew Jack in Cannes

As film stars wiped away the tears of disappointment or satisfaction yesterday with the closure of the 50th Cannes Film Festival, local commerce was rubbing its hands.

After a disappointing summer for tourism last year, this year's festival seemed to indicate a strong rebound. For months all hotel rooms in the town and surrounding area had been booked for the two weeks of the festival. Some hotels are full for all the festivals until the end of the century.

"I have the feeling that it is going to be a very good year for tourism," says Mr Robert Vanhauter, director of the local office of the Bank of France.

For the last two years he has made estimates of the economic effect of the festival, which he calculates last year brought FFr550m ($96m) to the region. That represents one quarter of revenues generated by all of Cannes' 140 annual conferences. Some 40,000 people were registered for the festival, up sharply on previous years, including more than 4,000 journalists and 4,000 film professionals.

The festival provides in a fortnight 15 per cent of all revenues in local hotels as well as substantial business for taxis, restaurants and shops. According to an analysis of the daily quantities of litter gathered by the town, there were 250,000 visitors during the first weekend of the festival.

In addition the international gathering provides valuable publicity for Cannes. "We are getting more coverage for the 50th Festival than they did for the Olympic Games in Atlanta," says Mr Maurice Delauney, the mayor.

The town provides a FFr5m grant to the festival, provides the congress centre free to the organisers – which would otherwise cost FFr15m – as well as providing security, plants and other decorations during the period.

It is the kind of boost Cannes badly needed following scandals surrounding a former mayor, Mr Michel Mouillot, first elected in 1989 and re-elected in 1995 in spite of a conviction for receiving money from a businessman illegally.

Mr Mouillot was finally forced to hand over to his deputy, Mr Delauney, in February after his case failed on appeal. He has since been placed under formal legal investigation in relation to three other corruption scandals.

The festival still faces some challenges. The number of rival festivals is growing around the world. And Mr Jerome Paillard, managing director of the international film market which runs in parallel with the better known screenings for the film awards, said most films shown had already been sold to big distributors.

Dinner for four? That'll be $5,800 - or else!

By Kester Eddy in Budapest

The case of a Danish tourist who was charged more than the average Hungarian earns in a year for a meal in a Budapest restaurant has caused an outcry in a country that is earning an increasing proportion of its income from tourism.

The consumer protection authority has fined the restaurant, the Fisherman's Inn, the maximum Ft 30,000 ($166) for having an "irregular" menu, with meals and prices on separate lists, but officials admit this is hardly a deterrent, given the scale of the overcharging.

The Dane, Mr Preben Olsen, was the victim of an increasingly common trap for unwary tourists. A US consular official says Americans report similar cases "roughly every two weeks," and that's probably just the tip of an iceberg.

In many cases, a tourist "just meets" a pretty girl and invites her out. She knows where to go, of course. Mr Olsen and his friend had met two such "consumer ladies".

Mr Olsen had expected to pay relatively well for what had been a good evening. The restaurant was in the city centre, five minutes from the Danube, the steak and goulash were good, the Tokaj wine was excellent, the gypsy band played well and the waiter was attentive. He mistook the the bill for Ft 104,840 ($580) and wrote a cheque for Ft 110,000. The waiter begged his pardon but Mr Olsen had misread the figure – the cost was Ft 1.04m ($5,800), never mind the tip.

In local parlance, Mr Olsen had been "beaten over". Others have even been beaten up.

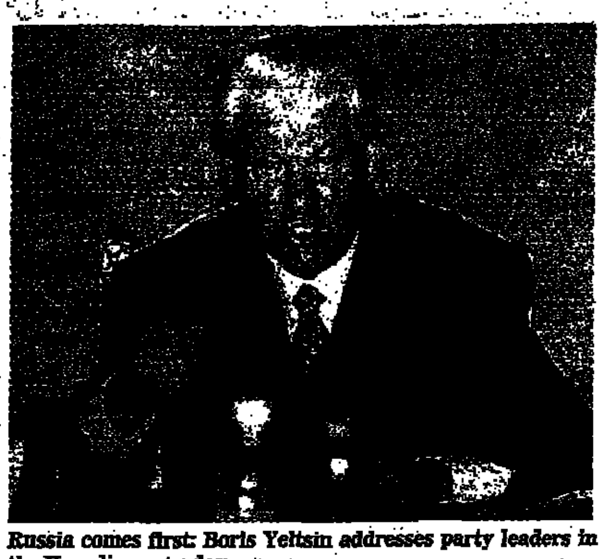
A police chief conceded staff at some dubious establishments were "larger than normal, with shaven heads. They exert a certain fascination on customers."

هكذا من الأصل

Yeltsin woos hardliners

Russian president tries to mollify opponents over Nato and reform, ahead of vote on spending cuts

By John Thornhill in Moscow



Russia comes first: Boris Yeltsin addresses party leaders in the Kremlin yesterday Reuter

Mr Boris Yeltsin, Russia's president, yesterday sought to mollify his hardline opponents about Nato expansion and the course of economic reform, ahead of an important vote in parliament this week to approve savage budget cuts.

In a rare meeting with the leaders of all the parliamentary parties, Mr Yeltsin argued that Russia had won critical concessions from Nato preventing the forward deployment of forces and vowed to defend Russian interests at all costs.

In a television broadcast later he said Russia would "reconsider its relations" with Nato, set out in the agreement to be signed in Paris next week, if the alliance gave membership to any former members of the Soviet Union. "Of course we can not forbid them, we can not go to war against them, but we can try to assure a maximum of security for Russia in one way or another," he said.

Mr Yeltsin also promised that his government's top priority was to pay off its massive arrears to pensioners and federal employees. In a further sop to the Communist opposition, he elevated Mr Victor Khlystun, the conservative agriculture minister, to the rank of deputy prime minister giving him more sway in an increasingly reformist cabinet.

But Mr Yeltsin still appears set on collision course with parliament when deputies vote on Friday on government measures to sequester budget spending.

The parliamentary budget committee yesterday condemned the government's plans to cut Rbs108,000bn ($18bn) from its spending programmes – a move ministers say is essential to keep within budget deficit targets.

The liberal Yabloko faction is collecting signatures to hold a no-confidence vote in the government, describing its plans to present its budget-cutting measures in parliament as a "farce". "The existence of a government incapable of raising taxes is impossible," it said.

But Mr Gennady Seleznyev, the Communist speaker of the lower house of parliament, said it would be a waste of time for deputies to discuss the question of sequestration, given that parliament had no powers to prevent the government from cutting expenditure if it deemed it essential.

He suggested deputies should instead review new proposals to amend the tax code and begin considering the 1998 budget – which the government has promised to submit to parliament shortly.

Mr Sergei Dubinin, the head of the central bank, said Russia's macro-economic policy framework would remain in place however parliament voted. But he slammed suggestions from some deputies that the budget deficit should be covered by printing money, saying this would only plunge the country into "the abyss of inflation".

"If we again have 1,000 per cent inflation, we may be forced forever to leave the circle of civilised nations," he said in an interview in the Trud newspaper.

Athens makes peace with bankers in public debt talks

Debt is forecast to decline this year, writes Kerin Hope

Greece's governing Socialists denounced local bankers as "traitors" three years ago for allegedly speculating against the drachma during a currency crisis. Now Mr Nikos Christodoulakis, deputy finance minister, lunches regularly with the government's former enemies to discuss reducing the cost of financing Greece's swollen public debt.

The outlook for tighter debt management has improved as inflation retreats, cutting the cost of the government's monthly borrowing on Greece's unpredictable capital markets. The annual inflation rate has fallen from 7.3 per cent in December to a projected 5.5 per cent in May, the lowest rate since the 1960s.

Greece's public debt stabilised in 1996 at 110 per cent of gross domestic product – almost double the 60 per cent target set in the Maastricht treaty as one of the criteria for joining the planned single European currency – and is forecast to start declining this year. The finance ministry is expected to roll over at least Dr9,000bn ($33.3bn) of existing debt by December, equivalent to almost 30 per cent of GDP.

The sharp decline in inflation prompted the finance ministry to cut interest rates by 60 basis point to 9.7 per cent on next month's issue of 12-month treasury bills, the main debt-financing instrument.

"The days of unreasonably high interest rates and a desperate scramble to raise enough funds at the end of every month are over. We've enriched the bond portfolio with new issues and started to spread them over a longer period to avoid seasonal humps in rolling over debt," says Mr Christodoulakis. "But improving debt-management is a gradual process."

Greece yesterday launched its first index-linked bond, carrying an interest rate pegged to the inflation rate. In mid-June Greece will issue its first 10-year fixed-rate bond. It is expected to give a boost to the small secondary bond market because traders for the first time will be able to calculate a yield curve for Greek bonds.

Small issues of fixed-rate bonds with maturities ranging from three to seven years have appeared since last November, when the finance ministry decided to trim borrowing costs by phasing out issues of floating rate notes. These had maturities of up to seven years but carried floating interest rates of 100-150 basis points above the 12-month treasury bill rate.

Mr Christodoulakis says one of his next tasks will be to reverse the finance ministry's reputation for lack of transparency in debt management.

There is no regular schedule of government bond issues, auctions of treasury bills may be announced or cancelled at short notice, and no official figures are available on yearly debt-financing requirements.

Bankers complain that at times when the finance ministry faced a critical hump in repayments, a group of big Greek banks would quietly be offered substantially increased commissions for selling extra amounts of treasury bills.

Mr Christodoulakis insists infrastructure for a modern debt market will be introduced over the next 12 months, including legislation to appoint a limited number of Greek banks as primary dealers allowed to buy new government bond directly from the finance ministry. Measures will follow to make the secondary bond market more transparent and attract more foreign investors by introducing a centralised electronic trading system.

Greek traders say that falling interest rates on bank deposits and the introduction of new types of bond have made the bond market much livelier.

Mr Abis Levis of Telesis Securities estimates that retail investors have switched about Dr1,500bn since January from savings accounts and treasury bill to mutual funds, which invest in the longer-term instruments that the finance ministry wants to promote.

EUROPEAN NEWS DIGEST

Tudjman party wins Zagreb

Croatia's ruling party yesterday won control over Zagreb with the help of two opposition defectors, ending nearly two years of stalemate over the capital's mayor.

A coalition of six opposition parties won the Zagreb council in 1995 local elections but President Franjo Tudjman, in a move that drew international criticism, refused to recognise four of the alliance's candidates for mayor, citing reasons of national security.

Fresh elections last month resulted in further deadlock. Mr Tudjman's conservative nationalist Croatian Democratic Union (HDZ) won 24 of the 50 seats, while a coalition of the opposition Social Liberals and former communists took 23 and the Peasants party secured the remaining three seats. But after several weeks of negotiations two Peasant party councillors defected to the HDZ, giving it a majority.

Mrs Marina Matulovic-Dropulic, who had been serving as Zagreb's acting mayor and has been accused of corruption by opposition newspapers, was confirmed as mayor by the HDZ.

Control of Croatia's biggest industrial city is expected to give a further boost to Mr Tudjman for the presidential election on June 15. *Guy Dinmore, Belgrade*

Italian MP on Mafia charges

Mr Marcello Dell'Utri, a member of the Italian parliament for the rightwing Forza Italia movement and a close aide of a former premier, Mr Silvio Berlusconi, was yesterday sent for trial by a Palermo judge on charges of links with the Mafia.

The Palermo public prosecutor's office alleges Mr Dell'Utri maintained periodic contacts from the 1960s until 1995 with Mafia figures who included Mr Toto Riina, the boss of bosses. The evidence has been largely drawn from 22 *pentiti* – Mafia members who are co-operating with justice under witness protection programmes. They claim Mr Dell'Utri helped recycle Mafia funds in northern Italy and arranged for bribes to allow the operation of Mr Berlusconi's commercial TV operations in Sicily.

Sicilian-born Mr Dell'Utri set up Publitalia, the advertising arm of Mr Berlusconi's media empire, and was influential in organising the magnate's entry into politics in 1994. *Robert Graham, Rome*

Sofia finance minister named

Mr Muravei Radev, a 50-year-old economist, has been chosen as Bulgaria's new finance minister by Mr Ivan Kostov, the prime minister-designate.

The Financial Stabilisation Council, which advises the interim cabinet yesterday proposed that the D-Mark rather than the US dollar should be used as the anchor currency for the lev in the currency board.

The final decision must be made by the new government and parliament, in which the UDF has a big majority after elections last month.

Mr Radev will be responsible for introducing the fixed exchange rate system, which links money supply to the level of hard currency reserves and severely restricts the government's ability to finance any deficit or bail out loss-making companies.

This is the most important of several reforms demanded by the International Monetary Fund and other creditors as a condition for loans. *Anthony Robinson, London*

ECONOMIC WATCH

Spanish jobs 6-year high

Spanish unemployment dropped by 49,400 in the first quarter of the year to 3.44m, or 21.5 per cent of the available workforce, still the highest rate in the European Union but the country's lowest for more than four years.

The figure, based on regular household surveys by the national statistics institute, showed a fall of 175,000 from the same period last year, when the rate stood at 22.9 per cent.

After seasonal adjustment, total employment showed an increase of 100,000 over last year's final quarter. The government, which last week approved incentives to encourage companies to take on more permanent staff, said the figures were a demonstration of accelerating economic growth. It pointed out that the number of Spaniards with jobs had now regained the level of 1991. In the interim the population over 16 years old has grown by more than 1.5m. *David White, Madrid*

■ Polish unemployment was 12.4 per cent of the population at the end of April, a fall of 0.6 points from March. *AFP, Warsaw*

NEWS: EUROPE

Lamfalussy confident over start of Emu

Alexandre Lamfalussy: stepping down after 3½ years at the helm of the European Monetary Institute

Ralf Braun

Preparing for Emu

Few people have left a bigger mark on the preparation for European economic and monetary union than Mr Alexandre Lamfalussy. After 3½ years at the helm of the European Monetary Institute (Emi), the forerunner of the future European Central Bank (ECB), Mr Lamfalussy is bowing out in six weeks to make way for Mr Wim Duisenberg, the current governor of the Dutch central bank.

Mr Lamfalussy has driven the project ahead against the odds and has managed to build up trust among central bankers and governments alike. In Frankfurt, he is viewed as the Holy Spirit hovering over the project.

He appears now more confident than ever that the project will go ahead on schedule.

The critical issue is the economic recovery. "I'm reasonably confident that we have a broadly based recovery. There are still some questions remaining to which it will be difficult to get an answer before midsummer before reliable second quarter figures. These concern the speed and nature of the recovery," he said.

"It is clear that exports are playing a major role. There is a question as to what extent this will be underpinned or augmented by domestic demand. This is important as it will have an impact on tax receipts. This is where we have to be cautious."

One of his main worries is the persistently high level of European unemployment. "This is a general concern, Maastricht or no Maastricht. The unemployment development is really wrong, independently of the Maastricht process – it is a sign of waste, and is ethically and socially unacceptable."

But unemployment does not undermine Emu. "I think it would be a danger to the extent that the policy reaction to unemployment problems were to differ between countries. You can live in a monetary union with high unemployment, though this would not be desirable.

"The real problem would be if policy divergence occurred – involving possible attempts to deal with unemployment through expansionary policy involving fiscal or monetary laxity. If this happened in some countries it would be a disruptive element now and in monetary union."

As to whether governments will continue their economic convergence efforts once Emu has begun, he is broadly optimistic.

"There is one area in which I think convergence is something that is safely embedded, and this is low inflation. This process started before Maastricht; it is linked to monetary policy, where convergence goes back to the cultural [monetarist] revolution in the 1970s. This was one of the more pleasant surprises that I had in the working of our [Emi] council."

Convergence is also being driven by Europe's single market and the stronger competition in goods and services.

"The process is not yet finished. In areas such as telecommunications, air transport, insurance and banking, we will get very tough competition and this is bound to have a very healthy effect on price stability."

Because of the speed at which countries' economies are moving together, he is more convinced than a year ago that Emu will go ahead on time.

"The reason I have changed my mind since the start of 1996 [when he mentioned the possibility of an orderly technical delay] is the very strong progress on price stability.

"This includes countries about which I had doubts. I had no doubt that Spain was on track. But I had no idea that Spain was going on that track so fast. The same applies to Greece, where the inflation rate has gone down from over 10 per cent to 6 per cent.

"The second reason is the political determination demonstrated by fiscal policy, the political will to try to tackle problems. I had hoped both these things would happen, but I was not so sure that it would turn out quite so well. This is a more committed world than I thought it would be."

> Lamfalussy has driven the project ahead against the odds and has managed to build trust among central bankers and governments alike. In Frankfurt, he is viewed as the Holy Spirit hovering over the project

He is cautious on the Luxembourg initiative to fix bilateral convergence rates for currencies in the future euro bloc before the end of this year to head off speculation.

"This is a point on which I am not going into in any detail, in particular on the timing and the content of such an announcement." Because the matter is highly important, "I don't in any way want to bind my council members."

But he made one point. "Whatever is done in the form of a pre-announcement [of bilateral conversion rates among participating Emu members] at whatever moment, it will be successful only if there is a clear commitment to continue convergence policies whether that country participates or not. That is a crucial point.

"If it is clear to the market that the central banks and the governments are committed to pursuing these policies whatever comes – because they believe the policies are good, irrespective of Maastricht – that is a precondition for handling anything."

He said governments should regard the Maastricht process as a long-term policy commitment and not as a qualifying hurdle.

One of the Emi's tasks is to pronounce on countries' progress towards meeting the Emu budget, debt, inflation and interest rate criteria.

It has been critical in its past comments, but Mr Lamfalussy feels the Emi's next convergence report, due in November, will come at an awkward time – not long before the decision on Emu membership.

So his personal view is that it should be skipped. "It would be totally misleading because it would be based on 1996 figures and possible figures for early 1997.

"How can you tell people that the real decision [about which countries meet the criteria] will come five months later?"

He also took a pragmatic view about how the convergence criteria – stating among others that budget deficits should not exceed 3 per cent of gross national product, with total debt within 60 per cent – should be interpreted in the Emu selection process. "It's not just a figure. You have to look over time, at what is lying ahead. We need a historical perspective."

Thus future policy prospects, such as the viability of state pension systems, should be taken into account.

The key factor is the "sustainability" of policies, mentioned twice in the Maastricht Treaty.

"This means judgment. There is no way out of it. This does not mean that you disregard the figures. But you must look beyond the figures, behind the figures – how they have come about and what is the likelihood of remaining where they are. That is a crucial question. This will be a hell of a professional task. But you have to go through it."

The decision process will become easier as more figures are available and more is known about how government policies are working. For example, said Mr Lamfalussy: "We will know more about Italy once we see how Mr [Romano] Prodi [the Italian prime minister] is able to handle the pension problem in Italy."

Once Emu has begun, exchange rate policies against third currencies will have to be agreed. The ECB will make recommendations but Emu governments will decide the strategy.

But "they cannot put at risk the stability-oriented monetary policy of the ECB."

He said this means that "the ECB cannot be forced to intervene in the foreign exchange markets in situations or for amounts which in its own view would create that risk, because it would create excessive liquidity domestically."

What about countries which stay out when Emu begins? "It may well be that one, or two or three or four or five countries do not participate at the start, but I don't see any reason why they should not come in rather early. Once the perspective of joining is not something like 10 years, but just around the corner – one, two or a maximum of three years – then I don't see why it should divide."

Mr Lamfalussy remained deeply convinced of the benefits of a single currency.

"I am genuinely of the belief that the natural complement of a single market is a monetary union. You can't really draw all the benefits of the single market unless you have an irrevocable fixing of exchange rates. This is becoming ever more important in a world in which we have a highly competitive single market and one with low inflation. Even very small exchange rate fluctuations can be detrimental for the single market."

But "it does not mean that we have a single state. That is nonsense. But we will have something in common which is very important."

Lionel Barber, Andrew Fisher and Wolfgang Münchau

The big forex jobs shakeout has already begun

It is often said that European monetary union would destroy trading in the currencies that join it. The truth is that it largely already has.

Some people still trade the French franc against the D-Mark, or even the guilder against the Belgian franc. But they hardly make money out of this, and the pairs are often used to train new traders. For months now the currencies expected to merge into the euro have barely budged against one another.

Emu news has lost most of its power to move markets. The markets simply shrugged last week when Mr Jacques Poos, foreign minister of Luxembourg, the country which takes over the EU presidency on July 1, said the "indicative" conversion rates for currencies in the future euro bloc could be agreed this autumn. Traders had always expected the conversion rates to be announced in advance, to prevent speculation in the run-up to Emu.

Traders also think they know what the "indicative" exchange rates will be: namely, more or less the same as the currencies' present central parity rates within the European exchange rate mechanism. Already, with Emu due to start on January 1, 1999, the market rates of all ERM currencies except the Irish punt are virtually at the central parities. In other words, as far as the forex markets are concerned, Emu for six or seven currencies is a cut and dried deal.

> News about European monetary union has lost most of its power to move markets

That means that little can budge these currencies. The French franc has moved in a range of just 1 per cent against the D-Mark since September. That is despite calls in France to devalue the franc, rumours that Emu might be delayed, and a French general election later this month that is being read by many as a second referendum on Emu. The guilder/D-Mark rate has edged around in a range of just 0.9 per cent for 18 months. A monkey could trade the pair, says the managing director of forex at one leading bank. Even the D-Mark/lira rate, which has seen the market switch from confidence that Italy would join the first round of Emu to confidence that it would not, has moved just 3.5 per cent since November, when Italy joined the European exchange rate mechanism. By contrast, the pound – expected to miss the start of Emu – has jumped 20 per cent against the D-Mark since August. It regularly moves 1 per cent in a day. The Spanish peseta and the Portuguese escudo, well defended by their central banks when the need arises, barely move at all.

Mr Michael Scarlatos, forex strategist at Bankers Trust in London, says: "These currencies are trading almost as if they were already fixed. Brussels and Frankfurt are getting what they want." However, large volumes are still traded in the currencies due to disappear. Corporates need to convert D-Marks into francs or guilders. The dollar is still being traded against seven European currencies, where soon there may be just one.

But converting future Emu currencies into one another has become a relatively simple administrative job, sometimes carried out by salespeople or even by the corporates themselves.

Few European currency traders will be sacked when Emu starts, for most have already left. The foreign exchange managing director says he employs just three spot traders in European Monetary System currencies, down from seven a couple of years ago. The baffling thing, he adds, is that the traders who left are now in EMS jobs at other banks.

Mr Richard Comotto, an independent forex consultant, says: "I think any bank that decides it's going to dispose of some of its dealers because of Emu missed the boat a long time ago."

Most former ERM currency traders have become forex salespeople, or are trading Thai bahts, or have built a house in the country. "I know some people who had an utter career crisis a few years ago," says Mr Comotto. But today, only a few are having them. Mr Scarlatos says: "The trading and economics profession in the currencies field as we know it will not change in a revolutionary way after 1.1.99."

It is often said that Paris, Frankfurt and Brussels will lose status as forex trading centres if Emu happens. Again, the truth is that they already have. Banks such as Deutsche Morgan Grenfell and Citibank have stopped trading in most of their continental European hubs.

If Emu happens, these sites will probably live on as markets for trading euros against the dollar, the yen or, increasingly, the Czech koruna. Mr Guy Whittaker, global head of forex at Citibank, pulls out a chart which shows that 80 per cent of currency trades in continental Europe already involve at least one non-European Union currency. Strip out deals involving the pound, likely to survive the start of Emu, and monetary union should barely affect these markets.

Emu's approach never did loom overwhelmingly to currencies workers. The reason is that its effects were disguised by a shake-up of the forex industry as a whole. The rise of electronic brokers cut margins on all trades; central banks stopped defending unrealistic exchange rates; and to compensate the industry, sales of hedging products and trade in emerging markets currencies started growing rapidly. Emu was just one new force among many. Deutsche Morgan Grenfell's forex staff has fallen from about 500 to 400 over the last three years. Mr Nick Beecroft, global head of spot trading at Deutsche Morgan Grenfell, estimates that only 30 per cent of the job losses were due to Emu.

Emu may be a revolution for the world economy. But for the currencies market, it is anything but that.

Simon Kuper

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Fed keeps markets in state of perfect uncertainty

By Gerard Baker in Washington

US and international financial markets were jittery yesterday in advance of today's critical Federal Reserve meeting that will decide whether or not to raise short-term interest rates.

Stock prices fell slightly as economists and Fed-watchers acknowledged that they were even more uncertain than usual about the outcome of today's federal open market committee meeting.

A few weeks ago there was near unanimity in financial markets that the Fed would follow up its March increase with at least one more hike to cool off a sizzling economy. That conviction prompted a 10 per cent fall in stock prices in the course of a month. But since mid-April, bond and stock prices have recovered all the lost ground as confidence has grown that the Fed will not raise rates.

The March increase followed clear evidence that the economy was growing at a rate incompatible with stable inflation. Gross domestic product expanded at an annual rate of 5.6 per cent in the first quarter, the fastest rate of growth in 10 years. That followed a strong end to 1996, and took the overall rate of expansion in the six months to March to 4.7 per cent, about twice what economists at the Fed have in the past regarded as the long-term sustainable trend rate.

But since the March move, almost all the available evidence for the first few weeks of the second quarter of 1997 has suggested a significant slowdown in the rate of growth. Retail sales fell in April, housing activity slowed, and the number of jobs the economy created was the smallest for six months.

Most economists believe the figures now suggest the economy has slowed by enough to stay the Fed's hand, at least until it has more evidence by the time of its next meeting in early July.

But even if the Fed is unconvinced that the economy is decelerating towards its long-term sustainable rate, some economists believe it will still hold off on another rate increase. In spite of the strong rate of expansion recorded in the last six months, there has been scant evidence of the sort of inflationary pressures usually associated with such rapid growth.

Consumer price inflation, hovering around an annual rate below 3 per cent, is dormant, while inflationary pressure further up the production pipeline seems almost extinct. Producer prices increased by just 0.8 per cent in the year to April. These figures are supported by strong anecdotal evidence that companies are not raising their prices in spite of the strength of demand.

No one yet knows quite why the economy has been behaving in this unusually benign fashion – but the fact that there is so little evidence of inflation clearly increases the pressure on the central bank to do nothing today.

But the Fed is notoriously famous for quite properly ignoring the views of market economists. And in spite of the lack of evidence of inflationary pressure, there are still two critical factors that will be pushing to Fed in the opposite direction - towards another rate rise.

The first is the long-term performance of the economy relative to what the Fed believes to be its potential.

In the recession of the early 1990s, the US economy grew for two years at a rate substantially below its long-term potential. After that output grew steadily, but not spectacularly, for most of the last five years. That slow rate of growth relative to previous expansions meant the economy took much more time to regain the output lost during the recession, which in turn meant it could continue to grow without stoking inflation.

It is only in the last year, with the rapid acceleration in its rate of growth, that the economy's output has risen significantly above what could be expected of it had it continued to grow at its long-term trend rate.

This "output gap", the difference between actual and potential output, is this year, according to the International Monetary Fund, likely to be a full 1.2 per cent, a level associated in the past with the emergence of inflationary pressures.

One other doubt that is certain to be voiced at today's meeting concerns the labour market. In April, the jobless rate fell below 5 per cent for the first time in a generation.

There is already some evidence that the tight jobs market is pushing up wages, and some members of the open market committee have openly expressed concern that a jobless rate below 5 per cent is certain to lead to even stronger wage demands before long.

On balance, the arguments for and against a rate rise seem in almost perfect equilibrium. But one factor worth remembering is that in the past the Fed's actions seem to have been determined by information about the economy that is much better than that which is available to outsiders. Small wonder the markets await the verdict today in a state of near perfect uncertainty.

FUNDING GAP DRIVE

Pentagon puts off choice on base closures

By Bruce Clark in Washington

The US defence department yesterday announced a trimming of personnel and some central procurement programmes in a drive to close the gap between stagnating budgets and ambitious modernisation plans.

However, cuts in numbers and force structure foreseen by the Quadrennial Defence Review (QDR), the Pentagon's assessment of defence needs for the next decade and beyond, were more modest than expected a few weeks ago – and hard decisions about which bases to close were left to the future.

Mr William Cohen, the defence secretary, presented the report as a trade-off between coping with today's threats – which include North Korea, Iran and Iraq – and unspecified dangers which could emerge early in the next century.

Between now and 2015, the review said, it was unlikely that any country could pose a global challenge to the US. Nor was it likely that any regional power or coalition could defeat the US, once US resources were fully deployed. However, in the period beyond there was a possibility a "competitor may arise," it said, adding that Russia and China were "seen by some as having the potential to be such competitors, though their... futures are quite uncertain."

US superiority in all areas of conventional weaponry might tempt an aggressor to use "asymmetric" or unconventional threats such as terrorism, biological or chemical warfare, information warfare or environmental sabotage, the review said.

But changes in force structure are relatively cautious, with the hardest cuts coming in infrastructure and logistics. The army will retain all 10 combat divisions, a decision that will reassure defence experts who have questioned whether the stated goal of fighting two regional wars at nearly the same time is attainable, even at current levels.

The army will lose only 15,000 active servicemen and 45,000 reservists – a gentler cut than the reduction of 50,000 active soldiers, or the equivalent of two divisions, which army chiefs had feared earlier this year.

The rationalisation will fall somewhat harder on the air force and navy – reflecting a view that fewer vessels and aircraft will be needed as their equipment is updated. While the number of aircraft-carrier battle groups will remain steady at 12, the fleet of surface combatant ships will be reduced from 138 to 116 and the attack submarine force from 73 to 50.

The air force faces a "consolidation" of its fighter, bomber and airlift squadrons and a streamlining of its command structure that will lead to the shedding of 27,000 active personnel and 18,300 civilian employees.

Mr Michael O'Hanlon, a defence analyst with the Brookings Institution, in influential think tank, said savings foreseen by the QDR would at best close $10bn of the $15bn gap between procurement targets and available funds which he thinks the Pentagon will face from 2002 onwards.

His forecasts are based on the assumption that total defence spending will fall slightly in real terms between now and 2002 and remain constant after that. Any unforeseen expenditures on peacekeeping or on missile defences would create an even bigger gap.

Colonel Daniel Smith of the centre for defence information, a think-tank critical of the military, said the review paid only lip-service to the need for a sweeping change of posture.

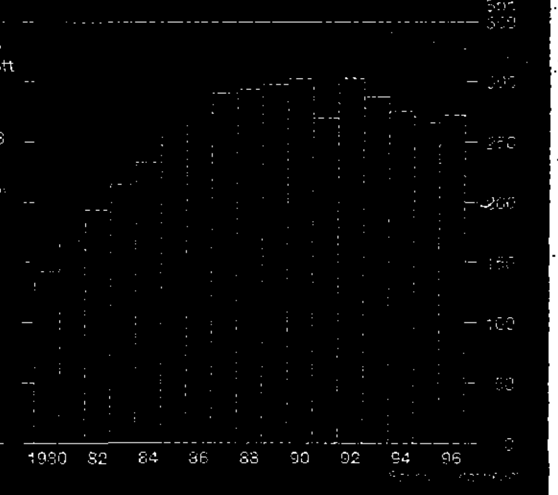
"The review talks in general about the information and unconventional threats but nothing has really changed" in the structure or strategy of the armed forces, he said. The US arsenal would still be top-heavy with weapon systems designed to counter a non-existent Soviet threat, he said.

US defence review: main points

Equipment

- F-22 Raptor: decrease total procurement from 438 to 339 aircraft. The programme will build to a maximum production rate of 36 aircraft per year, down from the original planned rate of 48 per year.
- F/A-18E/F: minimum procurement of 548 at a maximum rate of 48 aircraft per year compared with previously projected peak rate of 60 per year. (Should Joint Strike Fighter development be delayed, additional F/A-18E/F beyond 548, to a total as high as 785, may be added.)
- Joint Strike Fighter: total procurement of the JSF was reduced to 2,852 aircraft, down from 2,978 in previous long-range plans. A maximum planned production rate of 194 aircraft will be reached in 2012 rather than 2010.
- MV-22 Osprey helicopter: reduced from 425 aircraft to 360. Accelerate MV-22 procurement to a long-term rate of 30 aircraft per year in 2004.

US defence spending



Manpower

Forces	1989	Programmed force 1997	2003	Review	Reductions Army	Navy	Air Force	Marine Corps
Active*	2,130,000	1,450,000	1,420,000	1,360,000	15,000	18,000	26,900	1,800
Reserve	1,170,000	900,000	890,000	835,000	45,000	4,100	700	4,200
Civilian*	1,110,000	800,000	720,000	640,000	33,700	8,400	18,300	400

* Personnel numbers do not include Navy outsourcing initiatives planned prior to the review

Stealth wins as high-tech rules battlefield

By Bernard Gray, Defence Correspondent

Mr William Cohen, the US defence secretary, placed great emphasis on modernising the armed forces in his defence review, but that has not stopped the Pentagon cutting deeply into its acquisition of new equipment.

The Pentagon seems to have decided that it needs to put its money into systems yet to be developed, rather than into the current generation of military equipment, with the effect that some very large programmes are being pruned.

Fighter aircraft are the most expensive programmes, and so have been hit correspondingly hard. The Pentagon has been working on three fighter programmes expected to cost $360bn in total over the next 15 years, a figure widely thought to be unaffordable.

Unsurprisingly then, these programmes have all been trimmed, but the way they have been cut gives clues to the Pentagon's future aims. The worst casualty is the McDonnell Douglas F/A-18 E/F strike fighter, which will form the core of US Navy carrier-based aircraft into the next century. Instead of buying 1,000 of the jets, the navy will now get only 538.

Such deep cuts in the F/A-18 programme show that stealth aircraft, which avoid detection on radar systems, are being seen as the future path. As a result, old-fashioned non-stealth jets such as the F/A-18 are being purchased only until a stealth alternative is available.

Even the US Air Force's stealthy F-22 "air dominance fighter," made by Lockheed Martin and Boeing, has been cut back. The USAF will now get only 339 of these "silver bullets" instead of the 438 it had expected to get. This reflects the fact the F-22 was conceived in the cold war, and was designed to meet any threat, almost regardless of cost. Since then, acquisition reform has placed more emphasis on value for money and the affordability of aircraft, with the F-22 the last of the pre-reform aircraft.

Cuts in this programme suggest that the defence of US airspace is less of a problem than it was, and while it wants stealth, it is not prepared to pay highly for it.

The big winner in the fighter race then may well by the new Joint Strike Fighter (JSF), being designed in a competition between Lockheed Martin and Boeing. It is intended for use by the US Navy, US Marines and the US Air Force as a fighter which uses stealth, but is available at low prices.

Navy procurement of the JSF has been pushed forward to 2008, provided the aircraft can be built in time. While its overall numbers have been cut, the fall is marginal: the Pentagon now intends to buy 2,852 instead of 2,978.

The implication for the defence industry of the cuts is that the Pentagon is looking towards the technologies of information warfare, rather than conventional equipment, for its next technological boost. Equipment such as smart munitions, ballistic missile defence, surveillance techniques and above all command and control systems, which give commanders a clear view of the battlespace as events unfold, will be the Pentagon's highest priorities.

Companies used to making aircraft as a way to make a great deal of money will now have to focus on these new areas if they want to succeed. However, their forays into such new technologies have not always been unalloyed successes. Lockheed's new theatre high altitude area defence missile has been delayed by two years because of technical problems, for example.

The shift to new technologies may be firmly set in the Pentagon's sights, but caution over such technical risks means that it is proceeding more slowly on issues such as a national missile defence system for the US than some would like. That caution may give companies such as Lockheed and Boeing time to shift, but there can now be little doubt how far they have to go.

Recovery keeps on in Mexico

By Daniel Dombey in Mexico City

Mexico's recovery from the depths of its 1995 economic recession is continuing strongly, according to gross domestic product figures released yesterday.

GDP for the first quarter of this year showed a 5.1 per cent increase on the same period in 1996, a marginally higher increase than the government had predicted.

Mexico's progress is of special interest, since while it grew by 5.1 per cent for the whole of 1996, that figure was produced by comparison with an exceptionally low base.

"We are still seeing a pick-up in the economy," said Mr Paulo Leme, director of emerging markets research at Goldman Sachs in New York. "The only area where analysts' and the government's estimates are out has been the consumer sector."

The Mexican government said that if the figures were adjusted for the Easter holidays, which were taken in March this year, but fell within the second quarter of 1996, the rate of growth would have been more than 6 per cent.

Construction did best, with an 8.7 per cent increase. The industry almost disappeared in the crisis year of 1995, but public works projects and contracts for new, export-oriented factories have recently set it to life once more. Manufacturing industry increased by 6.2 per cent.

The opening-up of the telecommunications sector and the greater volumes of cargo shipped for export helped the transport, storage and communications sector to grow by 7.3 per cent.

"This recovery has come much earlier, much stronger than any previous cycle Mexico has seen," said Mr Leme. "The reason it has done so is structural reform and trade liberalisation."

High anxiety over high US mutual fund expectations

By John Authers in New York

The market for mutual funds is becoming overheated, and investors have unrealistic expectations for the future, leading executives from the industry warned last week.

Mutual funds, open-ended investment products generally aimed at retail investors, had by far their most successful year ever in 1996, with new investments exceeding redemptions by $324.97bn. The industry now manages more than $3,500bn in assets, and has almost saturated the US market, with about 90 per cent of households who have $10,000 to invest having some holding in mutual funds.

However, executives at the annual conference in Washington of the Investment Company Institute, the trade association for the industry, said they were worried that investors' expectations were unrealistic and that funds, originally intended as broadly diversified vehicles which could relieve small investors from the burden of difficult investment decisions, were now being traded as heavily as stocks.

In the past few years mutual fund "supermarkets", which allow investors to switch between funds without charge, have become increasingly popular, allowing small investors to manage their funds like a stock portfolio. There are now more mutual funds available – about 5,900 – than stocks quoted on the New York Stock Exchange.

According to Mr Lawrence Lasser, chief executive of Boston-based Putnam Investments, which sold more mutual funds through intermediaries than any other company last year: "The opportunistic investor who used to trade in stocks now increasingly trades in funds. That's not good for our long-term investors."

Mr John Brennan, chief executive of Pennsylvania-based Vanguard group of funds, second largest fund company, said: "We want to deter that activity. We think it's a real problem."

Companies are now attempting deliberately to damp investors' expectations, particularly in the wake of a survey which suggested mutual fund investors, buoyed by the strong stock market returns of the past three years, expect an average annual return for the next 10 years of 22.1 per cent. Vanguard circulated a guide to what happens in a bear market to all its investors, most of whom buy their funds direct from the company over toll-free telephone lines.

But the recent bull market in US equities means it is difficult to get the message across. According to Mr Arthur Zeikel, head of mutual funds for Merrill Lynch, the largest retail brokerage in the US: "Those of us who have been reminding people that markets don't always go up, and that they can go down faster have been wrong – we've been premature. The message is still sound, but the listener has to a large extent been turned off."

There were also fears about the perceptions of the most popular funds, particularly Vanguard's S&P 500 Index fund, which merely attempts to match the performance of the benchmark Standard & Poor's 500 index.

It has comfortably led the industry in attracting new cash for the last year, frequently taking in more than $1bn per month. This is mainly because it has outperformed most of its rivals in published performance tables. But Mr Brennan said the fund was being "mis-bought". People were buying in the hope it would continue to perform better than the rest of the market, but the index was merely a sector of the market, driven by about 50 stocks.

AMERICAN NEWS DIGEST

Recovery hope in Venezuela

After more than four years of stagnation, Venezuela's economy is showing the first signs of recovery. Vehicle sales were up 122 per cent for the first four months of 1997 compared with the same period last year. Commercial bank lending rose 9.8 per cent in March and 7 per cent in April.

According to Mr Freddy Rojas Parra, trade and industry minister, other sectors showing signs of recovery include services, industry, commerce and construction. The economy "is reacting sooner than we hoped", said Mr Rojas, who expects unemployment to fall 2 points from 11.2 per cent by the end of the year.

He added that the use of industrial plant capacity had increased from 50 to 60 per cent. The Venezuelan economy is expected to grow 4 per cent this year after contracting 1.6 per cent last year. *Raymond Colitt, Caracas*

Offer for Jamaican bank

A Jamaican government agency which was recently established to help troubled finance companies said yesterday it would make an offer for total control of the island's fourth largest commercial bank, in which it bought a 60 per cent stake last week.

In taking control of Citizens Bank, the Financial Sector Adjustment Company (Finsac) also gave the bank's former owners, Life of Jamaica, one of the island's leading insurers, an injection of J$1.2bn (US$34.3m) to help it restructure.

The sale of 60 per cent of Citizens Bank to Finsac was not caused by problems with the bank, but was part of a restructuring by Life of Jamaica, according to a statement from Finsac and Life of Jamaica. Finsac paid J$180m for its stake in the bank. Citizens Bank has subsidiaries in the US and Guyana. Under the rules of the Jamaican Stock Exchange, the holder of more than 50 per cent in any listed company is required to make a bid for the remaining shares. "The divestment of Citizens Bank forms a part of Life of Jamaica's overall plan to refocus on its core business of insurance and long term savings," said the statement. *Canute James, Kingston*

Mexican ex-prosecutor held

A former Mexican prosecutor, wanted for questioning over accusations that he planted evidence implicating the brother of a former president in a high-level murder, was being held yesterday in a Spanish prison awaiting the start of extradition proceedings.

Mr Pablo Chapa was picked up by Spanish authorities in Madrid late last week after months on the run, in a fresh twist to the long-running saga surrounding the family of Mexico's former President Carlos Salinas.

The fugitive former prosecutor had originally been entrusted with investigating various crimes associated with former President Salinas' imprisoned brother Raúl. But at the beginning of this year the Mexican government accused Mr Chapa of bribing witnesses and planting incriminating evidence on Mr Raúl Salinas' ranch. After that the former prosecutor fled.

Mr Chapa's arrest comes at a time when Mr Raúl Salinas' lawyers are growing confident that they can beat the murder charges with which their client is charged.

However, the former president's brother is still charged with "illicit enrichment". Despite his middle-ranking government post, he managed to build a fortune of at least $120m. The Swiss government has accused him of making money from drugs. *Daniel Dombey, Mexico City*

Bahamas switches links

The prospect of Hong Kong-based companies coming under Chinese jurisdiction is behind Sunday's decision of Taiwan and the Bahamas to sever diplomatic ties, a Bahamian government official said yesterday. The Bahamas is to establish ties with China.

Hong Kong reverts to Chinese rule on July 1, and all Hong Kong-based companies will come under Chinese jurisdiction then. Hutchison International Port Holdings, the port operating arm of Hutchison Whampoa Group of Hong Kong, is a partner in a recently opened $80m container port on Grand Bahama island.

Taiwan considered this level of involvement by a Chinese-based company to be incompatible with its diplomatic ties with the Bahamas, and the government did not consider this to be worth closing the container port for, the official said.

Taiwan has been involved in several economic projects in the Bahamas, a former British colony with a population of 250,000 people. Taiwan has diplomatic ties with several islands in the eastern Caribbean.

"We were not under any pressure to close the port," a Bahamian official said. "Taiwan made no such request, and we would not contemplate such an action involving a very important part of the country's economy. What the Bahamas is doing is streamlining its foreign relations to meet its needs for national development." *Canute James*

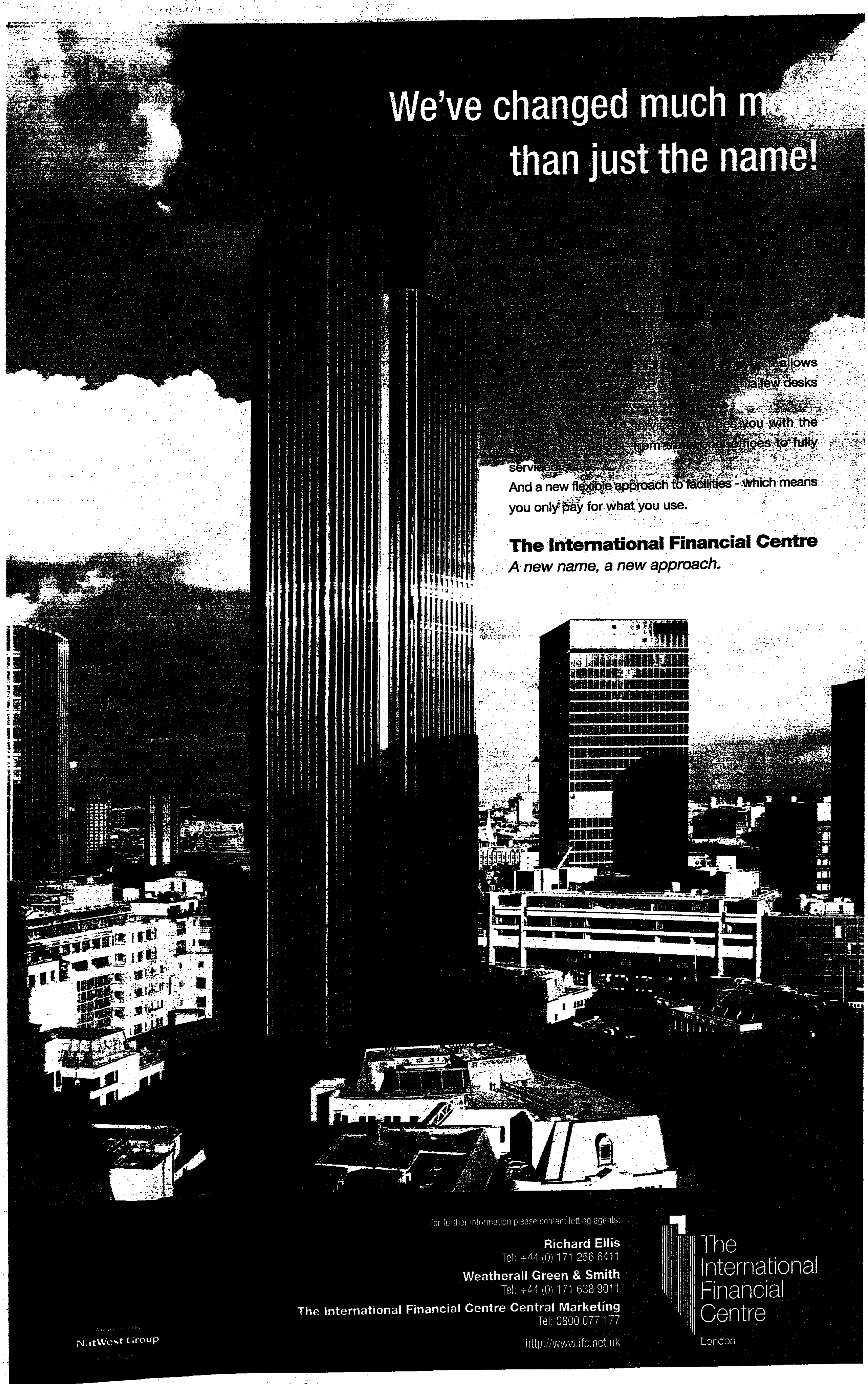
Samper on 'hit list'

Jailed Colombian drug bosses have placed President Ernesto Samper and the US ambassador, Mr Myles Frechette, on a hit list of assassination targets, police said yesterday.

The list was drawn up in reprisal for recent moves in Colombia's Congress to end the country's six-year-old ban on the extradition of drug lords and other criminals, police said. Other figures on the list include the national police director, General Rosso José Serrano, and Mr Carlos Medellín, an outspoken proponent of extradition who stepped down as justice minister last month.

Security measures for all the potential targets, including Mr Frechette, have been increased as a result of the murder plot, which was uncovered through wiretaps on telephone lines in the maximum security wing of Bogotá's La Picota prison.

Colombia's constituent assembly, acting under enormous pressure from criminal drug gangs, banned extradition in 1991. But the Senate constitutional affairs committee voted last Tuesday to lift the ban, opening the door to the possibility that the practice will be restored within the next year. *Reuter, Bogotá*



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Islands row tests Manila's patience

By Justin Marozzi in Manila

Philippine naval and congressional leaders visited the disputed Scarborough shoal in the South China Sea at the weekend, the scene of Manila's most recent dust-up with Beijing. They took part in some patriotic flag-waving.

It was the most visible sign that the Philippines is running out of patience with China over its territorial dispute in the South China Sea. After two years of courting Beijing, Manila is realising that rapprochement over the Scarborough shoal and the Spratly Islands has got it nowhere.

Earlier this month, China warned that the raising of a Philippine flag on Scarborough shoal was a "serious violation of China's territorial integrity".

The statement followed the sighting of three Chinese warships near the Philippine-occupied Kota and Panata islands in the Spratlys and the discovery of a "hut-like structure" on a nearby reef. In 1995, Manila and Beijing were locked in a row over Mischief Reef, which later led to a bilateral agreement on closer co-operation.

Behind the carefully staged photo-call and flag-waving on Scarborough shoal, there is unease. Hawkish statements from Chinese officials have shattered Philippine confidence in Beijing's peaceful intentions in the South China Sea.

China, the Philippines, Vietnam, Malaysia, Taiwan and Brunei lay claim in whole or in part to the cluster of 190 islands but the Philippines has the highest number of disputed claims.

China's moves especially rattled Manila, coming so soon after it had helped ease Beijing out of an awkward diplomatic corner by acting as a transit point for Mr Hwang Jang-yop, the North Korean defector, en route to Seoul.

As Mr Jose Zubiri, a congressmen, remarked: "After risking our neck for them, what did they do? Send gunboats as a way of saying: Thank you."

There appears no obvious way forward for the Philippines. Unlike Vietnam, which has bloodied Beijing's nose in the past, the Philippines, after years of depending on the US for its external defence, is less well equipped to take a robust diplomatic line.

"China is playing a very rough and tough game over the Spratlys and it's the number one issue for Philippine foreign policy," said a western diplomat.

"Recent events have really rocked them because all the good work is out of the window. It has brought home to them what a limited range of options they have. They don't know how to react."

Washington is firmly against extending its mutual defence treaty with the Philippines to include the disputed islands: at the same time China is likely to resist a United Nations role.

The impasse could be eased by the seven-member Association of South-East Asian Nations (Asean), whose regional forum convenes in Malaysia at the end of the month. The Spratlys is on the agenda and looks as if it will remain there.

Life after Ramos, Page 21

Thai currency tactics calm SE Asian markets

By Ted Bardacke in Bangkok

Thailand continued to shut off its currency from foreign investors yesterday, leading to a temporary calm in financial markets throughout south-east Asia, where last week the region's central banks employed a new and unexpected weapon – selective capital controls – in their fight to defend their currencies from speculative attack.

Since last Thursday the Bank of Thailand has instructed local banks not to sell baht to foreigners in the swap market. The bank drove up short-term interest rates offshore to nearly 1,400 per cent, while within Thailand interbank and overnight rates never rose above 25 per cent and yesterday fell to 12 to 14 per cent. This forced traders who had sold the baht short to close their positions via the spot market and the subsequent demand strengthened the baht dramatically. Yesterday the baht closed at 25.85 to the dollar, unchanged from Friday.

A similar pattern was observed in Malaysia and Indonesia. Although short-term offshore rates for the Malaysian ringgit and Indonesia ruppiah returned to normal levels on Friday afternoon, it was only after many traders for foreign institutions in Singapore and Hong Kong reported they could not get prices quoted from local banks in the morning.

This eased the speculative selling which had occurred. The ringgit dropped slightly to 2.4935 against the dollar, from Friday's close of 2.4880. The rupiah was at around 2,443 against the dollar, down from an opening level of 2,439.

The Philippines did not resort to such strong tactics but instead went for a more traditional – and successful – defence by quickly raising all short-term interest rates. Other central banks in the region could follow Thailand's lead and impose offshore capital controls at any time, as they are likely to receive close co-operation from local banks which are the largest holders of these relatively illiquid currencies.

"This is not like when sterling was driven out of the ERM because local banks are onside, not speculating against their own currencies," said Mr Paul Alapat, financial economist with Lehman Brothers in Hong Kong.

"Within an hour the Bank of Thailand was able to drive a watertight wedge between domestic and offshore rates. All the central banks in the region could do the same thing because local commercial banks can't risk going against a central bank directive. They could lose their banking licence," Mr Alapat said.

Some analysts said the moves could hurt equity markets because the offshore rate rises would eventually have some spillover into the domestic money market, thus hurting the corporate sector.

The equity markets were stable yesterday, with the Thai stock index gaining 2.84 per cent, Hong Kong's Hang Seng Index up 0.33 per cent, the Malaysian KLSE Composite down 0.05 per cent and Singapore's Straits Times Index down 0.46 per cent.

The larger worry, economists said, was that the prospect of intermittent capital controls to protect currencies could scare off international investors, and lead to a sustained curtailment of capital inflows – a dangerous prospect for economies whose current account deficits are still large and growth rates slowing.

"The fear is that it won't be a question of price any more, but that foreigners will stop paying for the current account deficit," said Mr Pieter van der Schaft, regional economist with ING Barings.

Editorial comment, Page 21 ;
Currencies, Page 31

Japan, Russia set aside Kuriles row

By Gillian Tett in Tokyo and John Thornhill in Moscow

When next month a Russian war vessel docks at a Japanese port it will be the first to do so since the two countries fought a bloody sea battle in 1905.

The gesture reflects a broader initiative to improve relations between Russia and Japan, which have been marred by a dispute over a group of islands, known in Russia as the Southern Kuriles and in Japan as the Northern Territories. The islands were seized by Russia at the end of the second world war.

But with Mr Yukihiko Ikeda, Japan's foreign minister, due to visit Moscow this week, a subtle diplomatic shift is under way.

In public there is still no sign of any agreement over who should control the four barren islands. But in private a new *modus vivendi* may be emerging: instead of focusing exclusively on the island dispute, the two sides are increasingly co-operating over other issues, including not only military matters, but also joint development of Far Eastern energy reserves.

As one Japanese official says: "There is no agreement over the islands. But there is a type of understanding not to talk too much about this disagreement at the moment."

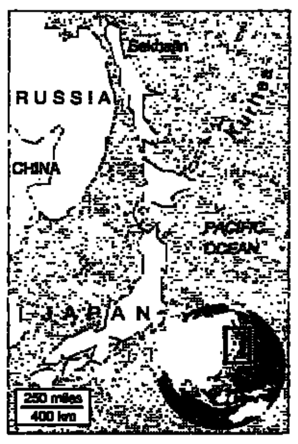
The change partly reflects the shifting Asian geopolitics: Japanese officials are increasingly uneasy about China's power in Asia and the longer term future of the US security umbrella – and thus more aware of the need to cultivate their neighbours.

But it also reflects a new tactical approach: some Japanese officials suspect that this "softly softly" approach is more likely to achieve the longer term goal – which remains the return of the islands.

As one western diplomat says: "There is no sign at all that Japan is less determined to get the islands back.

"They just hope now that they can do this by first creating a more positive climate."

The shift of focus is already bearing fruit. Talks are under way to settle a long-standing dispute about fishing rights around the island region and Japan has quietly backed away from its reluctance to let Russia participate in the Group of Seven meeting in Denver next month.



There has also recently been a flurry of bilateral contacts: last weekend Mr Igor Rodionov, Russian defence minister, visited Tokyo – the first time a defence minister has done so.

Meanwhile, there has been an upsurge in economic projects in the Russian Far East, particularly on the Russian island of Sakhalin. On top of two big oil projects, Japanese companies are – with the government's blessing – involved in a huge gas exploration project.

The Russians have been placing increasing emphasis on developing relations in the Pacific region as they seek to counterbalance the eastwards expansion of the Nato military alliance in particular, and the perceived domination by the US in general.

Russia also eyes Japan as a potential export market for arms. Two Japanese pilots will arrive in Russia later this year to test the Su-27 amid talk that Tokyo might place a big order for these advanced jet fighters.

Indian budget targets 'on course'

India's finance minister, Mr P. Chidambaram, is confident a strong economic rebound this year and improved tax compliance will deliver the revenues forecast in his recently passed budget and keep the government's fiscal position on target.

In an interview with the Financial Times, he listed his priorities: further financial sector reforms, and implementing a recent government-commissioned report on India's infrastructure needs, and spending cuts, beginning with a national debate on subsidies.

He also said the first two reports from a disinvestment commission, set up in his first budget last year, would go before the United Front (UF) cabinet next month. He saw "no reason" why the ideologically disparate UF should not then start a programme of disinvestment, including outright sale of some public companies.

Mr Chidambaram stressed his commitment to "greater" and "speedier" reform and insisted his party, the Tamil Maanila Congress, would remain in the 13-party coalition as long as reforms continued. "If this government is not in reform mode, we see no place for us in the government." But all parties in the coalition recognised an "undercurrent of strong support for the reforms".

The minister attributed last year's unexpectedly poor industrial performance to poor harvests in 1995-96, which hurt rural incomes and demand, tight monetary policies by the former Congress government, which inhibited investment, and slower world trade.

This, along with a strong dollar, helped explain the slow growth of India's exports last year of just 4 per cent in dollar terms.

Better harvests last summer and lower interest rates would lead to strong industrial recovery, making 1997-98 "much better". Mr Chidambaram's tax-cutting budget relies on stronger growth to meet ambitious revenue targets and cut India's fiscal deficit from 5 to 4.5 per cent of gross domestic product.

Chidambaram: 'Inflation will be under control'

He said India's recent political crisis had harmed business confidence and growth, but he expected government revenues would be boosted by a "multi-pronged strategy" to improve tax compliance.

Besides the budget's lower tax rates and a voluntary compliance scheme, this included a publicity campaign and a drive to double India's present base of 12m taxpayers within three years.

Officials would meet soon to begin implementing the recent India Infrastucture Report, prepared by Mr Rakesh Mohan of the National Council of Applied Economic Research. The report aggregates India's overall infrastructure needs and identifies financial sector, tax and other changes needed to meet their cost and spur private investment.

He conceded his own ministry had been at fault delaying clearance of a series of financial guarantees for eight big "fast-track" power projects. Only four have been awarded since the one-off offer of such guarantees was made in 1992.

The country's finance minister tells Mark Nicholson and Martin Wolf of his commitment to further economic reforms

On spending control, the minister hoped a recent report on subsidies, commissioned by his department to stimulate public debate, would lead state chief ministers this summer to begin talks on how to "pare down" subsidies.

The paper calculated the cost of implicit and explicit subsidies by state and central government at 15 per cent of GDP. "Even if we just pare down subsidies by 5 per cent of GDP, it wipes out the fiscal deficit of the centre."

But politicians and economists had "failed to communicate the meaning of reform to people" and why such reforms were essential. "I'll have more money for schools, more money for primary health centres, more money for village roads, more money for midday meal schemes;

"Inflation will be under control so prices will not get out of alignment, credit will be available for your farm, your factory, your shop, your retail business. But who has explained? The failure of all our economists is: they have explained it all in economic terms. Who has explained it to the people?"

He also attacked as "wrong" the policies of most state governments in offering, for political reasons, free or heavily subsidised power to farmers, one of the biggest non-recovered costs.

"Nobody has the courage to stand up and say nothing is free. How is power free? It is not free. There is a cost of power. It is not recovered."

The states' financial position would be improved by planned reforms of the division of tax revenues. Mr Chidambaram has proposed that the states would in future receive 29 per cent of all centrally collected revenues, 2 percentage points of which would be tied to improved state fiscal performance.

This would require constitutional amendements, and thus the consent of half India's state governments, but he hoped to steer this through parliament this year.

He wanted to act swiftly on the first recommendations of the disinvestment commission, which has proposed several forms of asset sales including full privatisation, minority sales to strategic investors and issues to the market.

The commission has selected nine of India's 250 public enterprises for sales embracing each disinvestment formula. Cabinet approval of the suggestions would set a precedent in India for dealing with public-sector enterprises, an area of high political sensitivity.

Nine of India's biggest public enterprises, including BHEL, the power engineering corporation, and ONGC, the oil company, would be granted "total autonomy", with the aim of enabling them to become "potential global giants".

Martin Wolf, Page 20

ASIA-PACIFIC NEWS DIGEST

Seoul battle for presidency

Mr Kim Dae-jung, 74, the veteran South Korean opposition leader, yesterday became the first candidate to be nominated for the nation's presidential election in December.

The head of the centre-left National Congress for New Politics (NCNP) will be making a record fourth attempt for the presidency, but opinion polls suggest he will have a tough time achieving the first peaceful transfer of power to the opposition since South Korea was established in 1948.

The governing New Korea party has been hit by several corruption scandals involving the present administration, but several of its candidates vying to succeed the outgoing president, Mr Kim Young-sam, enjoy greater popularity than the opposition leader. The government candidate is expected to be nominated in July.

The NCNP has proposed joining forces with the smaller conservative opposition party, the United Liberal Democrats. But analysts believe any alliance is problematic.

John Burton, Seoul

Singapore official jailed

An official in Singapore's state investment arm, the Government Investment Corporation (GIC), was sentenced yesterday to just over nine years in jail and fined S$2.4m (US$1.7m) for corruption. Corruption is rare in the city-state.

The fine to be paid by Mr Taw Cheng Kong, 44, chief of the GIC's Asia-Pacific division, was equal to the sum he is convicted of having accepted from a Hong Kong-based investment house executive to buy some 88m shares in eight companies for GIC between 1991 and August last year.

James Kynge, Kuala Lumpur

Mongolia communist victory

The leader of Mongolia's former hardline communists was elected president on Sunday by voters anxious to slow the pace of transition from a centralised economy to capitalism.

In the fourth election since Mongolians dumped hardline communism for democracy seven years ago, Mr N. Bagabandi, chairman of the Mongolian Peoples' Revolutionary party, won a decisive 60.8 per cent of the vote compared with President P. Ochirbat's 29.8 per cent.

The Bagabandi victory was seen as a public backlash against the rapid reforms of Mr Ochirbat's governing Democratic Union coalition. But the coalition remains in firm control of parliament.

AP, Ulan Bator

■ The World Bank has announced a three-year lending programme of $1.13bn for the Philippines. The programme of 18 projects, agreed at the annual meeting between the government and the World Bank earlier this month, begins in July and focuses on human resource development, poverty eradication and sustainable development.

Justin Marozzi, Manila

■ A cyclone roaring in from the Bay of Bengal flooded low-lying areas along the coast of Bangladesh. More than 500,000 people were evacuated and moved to concrete shelters or schools, many of them built or reinforced after a 1991 cyclone killed 139,000 people.

AP, Dacca

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

■ UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	101.9	98.6	102.1	99.9	85.0
1987	105.6	100.7	103.9	98.4	76.1
1988	109.9	103.2	106.8	100.2	71.0
1989	115.2	108.5	109.9	101.9	74.9
1990	121.5	113.9	113.5	104.9	73.2
1991	126.6	116.3	117.3	108.4	74.1
1992	130.4	117.7	120.1	108.3	74.0
1993	134.3	119.2	123.1	108.2	78.4
1994	137.8	119.9	126.5	108.0	74.2
1995	141.7	122.2	129.7	108.3	68.7
1996	145.8	125.4	134.0	108.1	73.3
2nd qtr.1996	2.9	2.5	3.4	0.0	73.3
3rd qtr.1996	2.9	2.9	3.4	–0.1	73.5
4th qtr.1996	3.2	3.0	3.5	–0.5	74.3
1st qtr.1997	2.9	2.1	3.7	–0.1	77.9
May 1996	2.9	2.3	3.4	0.1	73.3
June	2.8	2.7	3.4	0.1	73.7
July	2.9	2.6	3.2	–0.8	73.5
August	2.9	3.0	3.5	0.1	73.1
September	3.0	3.0	3.4	0.4	73.8
October	3.0	3.1	3.3	–0.4	74.2
November	3.3	3.0	3.6	–0.9	73.6
December	3.3	2.8	3.7	–0.3	75.0
January 1997	3.0	2.5	3.0	–0.2	76.4
February	3.0	2.2	3.6	0.0	78.3
March	2.8	1.6	4.4	–0.2	79.1
April	2.5	0.8			80.1

■ JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	100.9	95.3	101.4	102.7	118.5
1987	101.3	92.5	103.1	100.0	122.9
1988	102.3	92.3	107.8	96.0	131.0
1989	105.1	94.2	114.0	98.8	123.5
1990	108.3	95.7	120.1	99.7	108.2
1991	111.9	96.8	124.2	103.9	113.2
1992	114.0	95.9	125.6	112.8	114.5
1993	115.4	94.3	125.8	118.8	131.9
1994	116.2	92.6	128.4	118.5	137.4
1995	115.9	92.0	132.5	115.8	138.3
1996	115.8	91.3	135.9	113.4	118.6
2nd qtr.1996	0.1	–0.9	1.6	–0.3	120.7
3rd qtr.1996	0.0	–0.8	4.6	–3.4	117.7
4th qtr.1996	0.1	–0.6	2.0	–3.8	114.0
1st qtr.1997	0.0				110.1
May 1996	0.1	–0.8	2.1	–2.5	122.0
June	–0.1	–0.9	0.8	1.2	118.7
July	0.4	–0.8	3.6	–5.6	118.1
August	0.0	–0.7	7.9	–1.9	118.5
September	–0.4	–0.8	3.0	–3.2	116.8
October	0.0	–0.8	2.8	–5.1	114.6
November	0.1	–0.5	2.5	–3.3	114.0
December	0.2	–0.4	1.4	–3.0	113.3
January 1997	0.0	–0.4	9.8	–7.4	111.4
February	0.0	–0.3	3.1		109.1
March	0.0				109.7
April	1.2				107.7

■ GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	99.9	97.5	103.6	103.8	107.5
1987	100.1	95.0	107.9	107.1	111.0
1988	101.4	96.2	112.6	106.9	110.0
1989	104.2	99.3	117.1	108.0	107.6
1990	107.0	101.0	123.5	110.3	110.0
1991	110.9	103.4	131.3	109.5	107.6
1992	116.5	104.9	138.2	115.4	110.1
1993	121.7	105.1	145.6	119.6	111.4
1994	125.1	105.7	150.8	112.0	109.9
1995	127.4	107.5	155.8	110.9	114.9
1996	129.3	107.1		109.7	109.9
2nd qtr.1996	1.5	–0.6		0.3	109.6
3rd qtr.1996	1.5	–0.6		–2.7	109.9
4th qtr.1996	1.4	–0.3		–5.2	107.9
1st qtr.1997	1.7	0.6			108.3
May 1996	1.7	–0.5	n.a.	2.0	109.2
June	1.4	–0.8	n.a.	0.0	109.2
July	1.6	–0.7	n.a.	–2.0	110.0
August	1.4	–0.7	n.a.	–3.9	110.5
September	1.4	–0.6	n.a.	–2.0	109.2
October	1.5	–0.3	n.a.	–3.9	108.0
November	1.4	–0.3	n.a.	–4.9	108.4
December	1.4	–0.3	n.a.	–6.8	107.5
January 1997	1.8	0.7	n.a.		106.8
February	1.7	0.6	n.a.		106.1
March	1.5	0.7	n.a.		105.8
April	1.4		n.a.		105.4

■ FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	102.5	98.0	104.5	101.6	103.4
1987	105.9	98.1	107.8	103.0	104.8
1988	108.8	102.9	111.5	104.1	102.2
1989	112.6	106.2	115.8	105.2	99.8
1990	116.5	107.1	121.5	109.6	103.0
1991	120.2	105.9	127.1	113.4	100.8
1992	123.1	104.3	132.3	115.6	104.3
1993	125.6	101.6	135.6	118.1	106.7
1994	127.7	102.7	138.2		106.2
1995	130.0	109.7	141.5		106.2
1996	132.6	105.8	144.9		105.3
2nd qtr.1996	2.4	–3.9	2.3		106.5
3rd qtr.1996	1.9	–5.2	2.6		106.2
4th qtr.1996	1.7	–3.9	2.6		105.9
1st qtr.1997	1.5		3.0		103.5
May 1996	2.4	n.a.	n.a.	n.a.	106.4
June	2.3	n.a.	n.a.	n.a.	106.3
July	2.3	n.a.	n.a.	n.a.	106.5
August	1.6	n.a.	n.a.	n.a.	106.1
September	1.8	n.a.	n.a.	n.a.	106.2
October	1.8	n.a.	n.a.	n.a.	106.5
November	1.6	n.a.	n.a.	n.a.	105.9
December	1.7	n.a.	n.a.	n.a.	105.1
January 1997	1.8	n.a.	n.a.	n.a.	103.4
February	1.6	n.a.	n.a.	n.a.	103.4
March	1.1	n.a.	n.a.	n.a.	103.8
April	0.8	n.a.	n.a.	n.a.	103.3

■ ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	106.1	99.4	104.8	102.6	101.3
1987	111.0	102.2	111.6	105.5	102.2
1988	116.5	105.7	118.4	109.7	101.0
1989	124.2	112.0	125.6	112.3	105.3
1990	131.7	116.2	134.7	118.8	112.0
1991	140.3	120.0	147.9	129.6	113.2
1992	147.7	122.3	155.9	134.5	109.6
1993	153.9	126.9	161.6	136.9	95.3
1994	160.0	131.8	167.0	138.1	93.4
1995	168.6	142.0	172.2	138.1	90.4
1996	175.0	144.7	175.3		102.0
2nd qtr.1996	4.2	1.6	2.1	2.5	102.1
3rd qtr.1996	3.5	0.4	1.7	0.7	102.7
4th qtr.1996	2.7	0.8	1.8		104.8
1st qtr.1997	2.4	0.9			104.3
May 1996	4.3	1.4	2.0	n.a.	102.6
June	3.9	0.7	2.2	n.a.	103.0
July	3.8	0.3	1.9	n.a.	102.6
August	3.4	0.4	1.9	n.a.	102.2
September	3.4	0.5	1.3	n.a.	103.2
October	3.0	0.7	1.5	n.a.	104.8
November	2.6	0.9	1.5	n.a.	104.3
December	2.6	0.9	1.8	n.a.	105.5
January 1997	2.6	0.9	3.9	n.a.	106.2
February	2.4	0.8	3.9	n.a.	103.9
March	2.2	0.9		n.a.	102.5
April	1.7			n.a.	103.0

■ UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	103.4	101.4	107.7	105.1	94.3
1987	107.7	104.9	116.3	107.5	94.7
1988	113.0	108.7	126.2	110.3	102.0
1989	121.8	113.9	137.2	115.1	100.6
1990	133.3	121.0	150.1	122.7	101.5
1991	141.2	127.5	162.4	129.5	104.5
1992	146.4	131.5	173.1	130.5	101.0
1993	148.7	136.7	180.9	130.4	93.2
1994	152.4	140.1	189.5	130.1	94.2
1995	157.8	146.0	198.0	134.2	90.8
1996	161.5	149.8	206.8	139.7	93.7
2nd qtr.1996	2.3	2.9	4.2	4.5	91.9
3rd qtr.1996	2.2	2.1	4.5	4.5	93.0
4th qtr.1996	2.6	2.0	4.6	3.4	99.6
1st qtr.1997	2.7	1.2	4.4	2.6	105.7
May 1996	2.2	2.8	4.0	4.4	91.6
June	2.1	2.6	4.3	4.5	93.4
July	2.2	2.2	4.4	3.9	93.2
August	2.1	2.1	4.5	5.2	92.2
September	2.1	2.2	4.7	4.6	93.7
October	2.7	2.3	4.0	3.5	96.1
November	2.7	2.1	4.7	4.0	100.2
December	2.8	1.8	5.1	2.8	102.6
January 1997	2.8	1.5	4.2	2.6	104.9
February	2.7	1.2	4.8	2.8	106.3
March	2.6	1.0	4.2	2.4	106.1
April	2.4	0.8			108.4

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

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NEWS: INTERNATIONAL

Ethnic and ideological diversity raises questions about the prospects for Zaire's new rulers

Big test for Kabila's untried team

By Michela Wrong in Kinshasa

As the Alliance of Democratic Forces for the Liberation of Congo (AFDL) approaches the daunting task of bringing order to Zaire, some fear that, with President Mobutu Sese Seko gone, the movement risks splitting at the seams.

Like many an African guerrilla movement before it, the AFDL is a pot-pourri of ethnic groups and political ideologies. Unlike such movements, its battlefield success has been so sudden and sweeping there has been little time to iron out differences of opinion.

Visitors to the AFDL headquarters in Lubumbashi describe a secretive military organisation strained by tensions between Banyamulenge Tutsis – backbone of the fighting machine and veterans of the Katangan secessionist wars of the 1960s and 1970s – and Mai-Mai militiamen from the east.

These conflicts appear to have claimed a top-level casualty early in the campaign when Mr Andre Kasase, a military commander vocal in his criticism of the Banyamulenge wing, was killed in suspicious circumstances.

The civilian administration, for its part, is dogged by animosities between veteran revolutionaries such as Mr Laurent Kabila, who stayed in Zaire, renamed the Democratic Republic of Congo, and exiles who regard anyone who lived in the country under Mr Mobutu as a collaborator.

The result is an organisation that often seems to speak with many contradictory voices. "They are all shooting from the hip and there is very little co-ordination," says a diplomat. "It is very difficult to ascertain who is actually at the helm."

The seizure of Kinshasa now risks highlighting one of the AFDL's weak points: precise policy plans. So far its "commissars" – recently redubbed "ministers" – have always described its programme in the broadest terms: multi-party democracy, fair distribution of resources, a free market economy.

That may have been deliberate in order to avoid divisive internal debate. But it may also result from a lack of relevant knowledge among the tiny inner circle, largely made up of exiled academics with little practical experience or day-to-day familiarity with Zaire.

In provinces captured on the march to Kinshasa, the AFDL has filled that vacuum by recruiting heavily from the local opposition and managerial class, appointing members of the opposition Union of Democracy and Social Progress as governors and replacing Mobutu-friendly company chairmen with other company officials.

Suggestions it should adopt a similar approach at the top echelons of state have always been dismissed by a movement that holds Kinshasa's political and entrepreneurial class in contempt. But if the AFDL is to provide this huge nation with a functioning government and administration, it may soon have to abandon such purist ideals.

The key figures emerging in the administration are:

- AFDL secretary-general Deogratias Bugera. A former architect from north Kivu, he is a Banyamulenge. Regarded as the second most important individual in the alliance after Mr Kabila, he is a softly spoken man who likes to remain out of the public eye.
- Foreign minister Bizima Karaha. A Banyamulenge who enjoys close relations with the government in Kigali. Zaireans often mock his Rwandan accent when speaking French. A 29-year-old pediatrician who trained in South Africa, he is a rather haughty figure with little tolerance for the media.
- Justice minister Mwenze Kongolo. A former investigator in the Philadelphia district attorney's office, he was born in the southern Shaba province. Genial and relaxed, he speaks excellent English thanks to his long US exile.
- Gaetan Kakudji. A cousin of Mr Kabila's, he was appointed provisional governor of Shaba when the controversial incumbent was removed from office following the rebel takeover of Lubumbashi. Along with Mr Mwenze and Mr Karaha, he has Mr Kabila's trust, representing him during peace negotiations aboard the SAS Outeniqua.
- Finance minister Mwana Nanga Mawampanga. From the coastal Bas Zaire province, he was deputy professor in agricultural economics at the University of Kentucky. Bright and hard-nosed, he is adept at playing rival business suitors off against each other. His capitalist instincts have counteracted fears Mr Kabila plans to introduce Maoist economics. But his role as point man for potential investors has sparked jealousy in the AFDL and his position is not as strong as it was.
- Mining minister Kambale Kabila Mututulo. A former English language professor at the University of Beni in eastern Zaire, he trained in New York and ran a charity in north Kivu. He has an impressive human rights record but no mining experience.
- Chief of staff Moise Nyarugabo. A former college classmate of Mr Kabila's, he is a Banyamulgenge who trained as a lawyer and joined the AFDL movement early on.
- Information minister Raphael Ghenda. A former engineer from Kivu, he is a reader of the works of late North Korean leader Kim Il Sung and runs re-education seminars for government officials. He plays little role in decision-making.

Currency doubles in strong sign of confidence in new regime

In a strong sign of confidence in President Laurent Kabila, the Zaire currency more than doubled in value yesterday, Reuter reports from Kinshasa. Moneychangers on Kinshasa's "Wall Street" posted the zaire at about 70,000 to the dollar, against 185,000 last week.

Mr Deogratias Bugera, Mr Kabila's second-in-command, told a news conference in Kinshasa that elections would be held only after the people had been re-educated, starting at the level of peasant collectives.

Mr Bugera said elections would be transparent and open to all, but were only a means to an end. "Be patient," he said when asked for a date.

The capital was calm after the mixture of euphoria and bloodshed on Saturday's rebel takeover, sweeping aside Mr Mobutu Sese Seko's discredited rule after 32 years. South Africa's President Nelson Mandela said Mr Kabila would go to Kinshasa today.

Mr Mobutu, meanwhile, was reported to be resting in Togo after leaving his jungle palace in his home region of Gbadolite. A Togolese security official said Mr Mobutu, who is fighting cancer, arrived on Sunday and was expected to fly on in due course, most likely to Morocco.

Turkmenistan plays shrewd game of cards

By Charles Clover in Ashgabat

Summit talks in Turkmenistan last week gave 10 states the chance to negotiate, lose their tempers, lie, accuse one another of lying, declare everlasting friendships and sign memorandums that may never be implemented.

But most of all, it gave Turkmenistan's President Saparmurat Niyazov the opportunity to vaunt his country's foreign policy of "permanent neutrality".

"Countries in this region have two choices: ally with a powerful patron, or play a balancing game," said a foreign diplomat in the Turkmenistan city of Ashgabat. "Turkmenistan is doing the balancing game."

It is also turning neutrality into one of its main industries. The country is building a role as central Asia's Switzerland – a convention centre for the "Great Game" of international power politics, where hostile countries from all over Asia can meet and negotiate.

Last week's summit in Ashgabat involved leaders and other top politicians from Iran, Pakistan, Turkey, Afghanistan, Azerbaijan and five other central Asia states – Kyrgyzstan, Uzbekistan, Kazakhstan, Tajikistan and Turkmenistan itself.

Meetings such as these are good business for Ashgabat. The city's numerous five-star hotels may seem unnecessary in view of Turkmenistan's limited appeal as a holiday destination – but the steady stream of delegations from the region and further afield has kept the hotels nearly full.

Several rounds of Tajik peace talks were recently held in Ashgabat, whose taxi drivers complain that the city's main boulevards are closed about once a week so that visiting delegations can zoom around in black Mercedes-Benzes unhindered by pedestrians and other traffic.

While its neighbours in Kazakhstan and Uzbekistan hunt for their historical roots in such central Asian conquerors as Genghis Khan and Tamerlane, Turkmenistan sees its historical role in accommodating its neighbours rather than crushing them.

A rock video by Gulam Kadyrov, the country's most popular singer, airs nightly on Turkmenistan television, featuring nostalgic footage of President Niyazov signing protocols and shaking hands with world leaders, juxtaposed with sun-drenched Turkmeni landscapes.

Mr Niyazov seems to be everywhere in Ashgabat. He smiles benevolently from posters and murals all over the city. It was his vision, combined with his "slush fund" – the Foreign Exchange Reserve Fund, which until a month ago recycled half of Turkmenistan's exports earnings – that built the five-star hotels, along with seven personal palaces.

Mr Niyazov is, by all accounts, a man who enjoys power and popularity. "He grew up in an orphanage," said one Ashgabatian. "I think he tries to make up for his lack of love in childhood by making his citizens love him." Mr Niyazov recently named himself "Turkmenbashi", or "leader of the Turkmen".

To go with his policy of neutrality, he has spruced his image in the past year. Old posters of a beady-eyed Soviet-style "Turkmenbashi" wearing a black suit and medals have gradually been replaced by a more mellow figure, sometimes reclining or in a garden, wearing a white suit.

Niyazov: mellow figure

At last week's summit, President Niyazov in fact played a substantive role as moderator and peacemaker between the sometimes combative delegations.

While Turkmenistan may never approach the success of the balancing game's acknowledged grand master, the late Egyptian President Gamal Abdel Nasser – who got the Aswan Dam and fighter aircraft for Egypt in the 1960s by playing superpowers off against one another – Turkmenistan has nonetheless reaped some of the rewards of neutrality.

Rows of Turkish textile factories on the outskirts of Ashgabat are among the dividends of good foreign relations. And a refinery has been upgraded with aid from Japan, Iran, Israel, and Germany.

"I've got to hand it to him," said one foreign diplomat. "He's been dealt very few cards, and he's playing them very well."

BP expects solar energy to be competitive for peak-time electricity in 10 years

Oil chief presses case for solar power

By Leyla Boulton, Environment Correspondent in London

British Petroleum yesterday made a bold pitch to develop solar energy.

Mr John Browne, BP's chief executive, said that, because the oil industry was going to "remain the world's predominant supplier of energy for the foreseeable future" it had to "play a positive and responsible part in identifying solutions" to a problem linked by scientists to fossil fuel consumption.

He confirmed to an audience at Stanford University, California, last night that his company aimed to increase sales of solar energy equipment to \$1bn over next decade from \$100m now. He said BP, the third largest seller of solar energy capacity in the world with 10 per cent of the market, reckoned it could make solar "competitive in supplying peak electricity demand within the next 10 years". It is already competitive for supplying customers without access to an electricity grid.

But he said that the development of alternative energy could never be "instead of oil and gas" but "additional" to it.

He said that BP, regarded as one of the more environmentally conscious oil companies, saw the development of the solar option as one of four strands of its strategy for tackling climate change.

The other three were reducing greenhouse gas emissions from the production and use of its products; the transfer of technology to developing countries and support for research into global warming.

The speech was the most positive response by an oil company yet to calls for so-called precautionary action to fight climate change even before the nature of the threat is proven. It could also help the company steal a march in a "green" propaganda war among companies for customers and between companies and environmentalists.

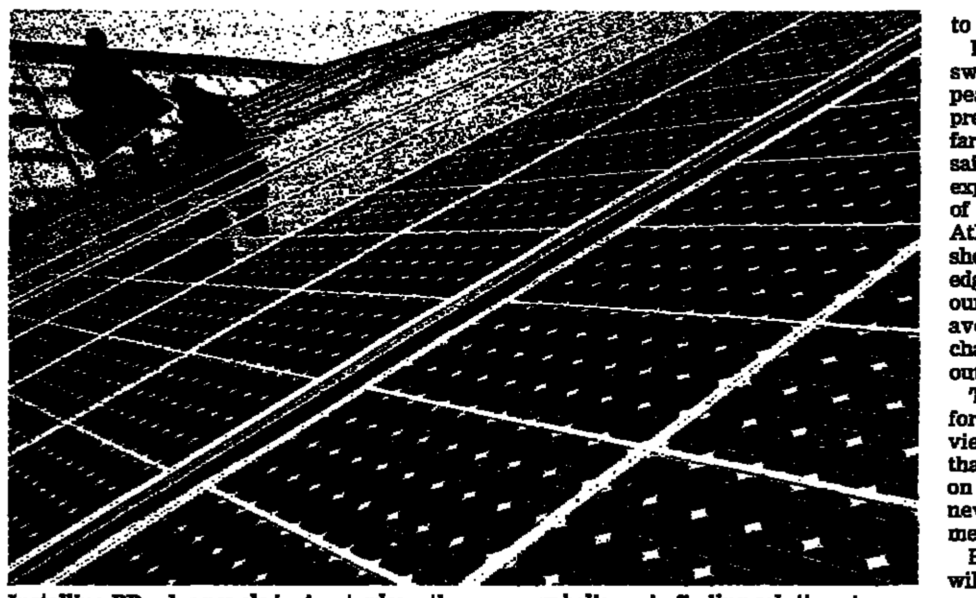
Shell for instance said last week it was still an open question as to whether it could do more to promote renewables. It said it spent just \$8m on research into solar and biomass compared to \$43m on charity.

BP's stance was however swiftly attacked by Greenpeace, the environmental pressure group for not going far enough. Greenpeace UK said that BP's "aggressive" exploration and development of new oil fields in pristine Atlantic and Arctic oil fields showed it failed to "acknowledge the inescapable logic of our predicament – that to avoid dangerous climate change will require a phase-out of fossil fuels".

This no doubt will reinforce a prevalent industry view, expressed by Shell, that whatever companies do on the environment, it is never enough for environmentalists.

But Mr Browne's speech will have done the environmentalist movement at least two favours.

First, BP's stance sets a higher standard against which to judge other companies' readiness to co-operate with efforts by governments to fight climate change. Second, it will increase pressure on governments such as the UK, to provide the "public support and investment" Mr Browne called for to bring the costs of solar down more quickly.



Installing BP solar panels in Amsterdam: the company believes in finding solutions to fossil fuel consumption and plans to boost sales of solar equipment tenfold

Mubarak peace call to Israel

A six-month suspension of Jewish settlement building in Arab east Jerusalem could restart the stalled peace process, Egypt's President Hosni Mubarak has said, according to an interview in the German business daily Handelsblatt, Reuter reports from Bonn.

Israel's start of construction on the Har Homa settlement last March has brought the already faltering Middle East peace process to a standstill, despite intensive US mediation attempts.

"If the Israelis were prepared to suspend settlement building until negotiations about Jerusalem have started, perhaps for six months, things could look different," Mr Mubarak told Handelsblatt in an interview released ahead of publication today.

If Israel observed the Oslo accord, a broad-brush interim agreement that promised security for Israel and self-rule for Palestinians, the Palestinians would be ready to find a compromise formula to settle Jerusalem's status.

"We only need a small sign from Israel," he said.

New powers agreed on secret N-projects

By Bernard Gray, Defence Correspondent

The International Atomic Energy Agency has agreed new measures to detect clandestine production of nuclear materials intended for use in atomic weapons.

Following the difficulties in spotting the secret nuclear programmes of Iraq and North Korea, the IAEA concluded its inspectors needed greater powers to demand access to nuclear facilities at short notice, to spot illicit production of plutonium or enriched uranium.

Under the new protocol, inspectors will have better access to atomic programmes of non-nuclear weapon states and more information about their current and planned programmes. Inspectors will be able to visit non-nuclear sites which could help with weapons production, such as engineering workshops or research laboratories.

Environmental sampling to detect minute but tell-tale traces of radioactive elements in the air or water systems will also be stepped up under the new regime.

Remote monitoring of nuclear facilities through video links and other detectors will also be improved.

Those states which sign up for the new protocol will have to simplify the procedures for allowing inspectors access to their nuclear facilities, increasing the speed of snap inspections.

Mr Peter Walker of Canada, chairman of the IAEA board, said the agreement was "a major achievement crowning five years' effort by the IAEA." Dr Patricia Lewis, director of Vertic, the arms control pressure group, called the accord "a bold step forward for verification".

Irish in HK duty free deal

By John Murray Brown in Dublin

Aer Rianta, Ireland's state-owned airports authority, is to set up 12 duty free shops in Hong Kong's new Chek Lap Kok airport, in a deal worth more than $200m a year, its biggest contract.

The Hong Kong Airport Authority yesterday awarded a five-year concession to two Hong Kong companies – Lai-Sun and New World Corporations. Aer Rianta is to manage the concession when the airport, with a capacity of 60m passengers a year, opens in April.

The deal, won against competition from Duty Free Shops, the international chain founded by Mr Chuck Feeney, the Irish-American businessman-philanthropist, is further evidence of Aer Rianta's global ambitions.

Aer Rianta has duty free outlets in Moscow, St Petersburg, Kiev, Bahrain, Kuwait, Cyprus, Beirut and Damascus, as well as at both ends of the Channel Tunnel. It also has a consultancy contract at Beijing's international airport.

Before the Hong Kong deal, Aer Rianta was the world's fifth biggest duty free company. But it is likely to be hit if, as mooted, the European Commission eliminates duty free sales within the Union by 1999, under a 1992 directive likely to be resisted by Dublin.

Launching a government study last week into the impact of the abolition of duty free, Mr Ruairi Quinn, Irish finance minister, said he was "concerned" at the effect on employment and the cost of travel.

The Brussels based International Duty Free Confederation estimates 75 per cent of the $6.9bn of EU duty free was bought by passengers within the EU, as opposed to those transiting. Aer Rianta depends on duty free revenues for a third of its I£231m ($352m) group sales.

Global farm equipment sales forecast to stay at buoyant levels for three years

Tractors keep grip in world markets

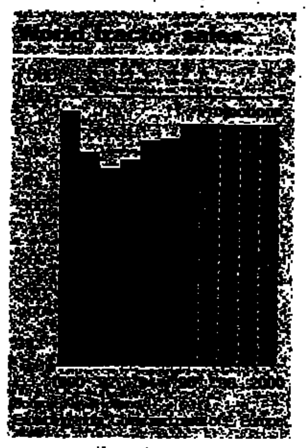
By Peter Marsh

Stable farm prices and a healthy world economy are expected to keep global tractor sales buoyant until 2000, according to forecasts by New Holland, one of the world's big four manufacturers of agricultural equipment.

The company, 69 per cent owned by Fiat of Italy, expects world tractor sales to stay at around 450,000 a year for the next three years.

Last year's tractor sales of 450,000 were the highest since 1990 and 5.8 per cent up on the 425,000 sold in 1995.

New Holland's figures exclude India, China and other markets such as parts of the former communist eastern Europe which are generally closed to western companies. World sales of farm equipment are about $30bn a year.



The company's positive tone was underlined earlier this month in separate comments from Deere of the US, the world's biggest tractor-maker. In comments to shareholders, Mr Hans Becherer, Deere's chairman said the farm equipment industry should benefit over the rest of 1997 from "a growing global economy, healthy agricultural markets and generally high levels of farmer confidence".

The other two big makers of tractors worldwide are Agco and Case, both US companies.

New Holland is particularly confident about prospects this year outside the main industrialised countries. It expects non-industrialised nations to account for sales of 70,000 tractors, up 14.7 per cent on the 61,000 last year.

A particularly large rise is projected for Brazil, which New Holland estimates will buy 15,000 tractors in 1997, compared with 10,000 last year. South-east Asia outside Japan is set for sales this year of 25,000 machines, after 22,000 last year.

Latin America excluding Brazil will have sales of 13,500, marginally up on the 13,000 last year. A similar small rise is seen for the Middle East and Africa – with 16,500 sales in 1997 against 16,000 in 1996.

Tractor sales in North America are likely to remain fairly strong, rising from 129,000 last year to 130,000 this year.

In western Europe, sales are expected to decline from 179,000 last year to 170,000 this year.

This continues the trend that started during the 1980s and is linked to farmers replacing old machines with more powerful ones – which increases farm efficiency – but leads to farmers needing fewer machines.

In Japan, tractor sales are projected to decline to 8,000 this year from 9,000 last year, partly a result of the weak economy.

Over the next three years, New Holland expects some fluctuations in sales in individual markets, but with declines in some countries balanced out by increases in others.

Taiwan fails to scotch fake whisky

By Laura Tyson in Taipei

Lined up on the shelf in a Taipei shop, a collection of whisky bottles immediately catches the eye, with their colourful and graphic labels. A red, white and blue Union Jack emblazons one label which shows King George in a crimson cape astride a prancing horse.

But things are not as they seem; the product is not from the UK and would never be allowed as an import to Britain.

This is because Chimas Teacher Extra Old Whisky, whose name discerning whisky drinkers will find reminiscent of two well known brands, is produced in Bombay and sold in places such as Taiwan, where consumers have an unquenchable thirst for foreign spirits and are not always concerned about authenticity.

Developed countries are not immune to deceptive labelling, as "Grand Duc", a French-made brew of dubious pedigree circulating in Taiwan, attests. Billed as "spiritueux au whisky", a line of infinitesimal print on the label reveals actual whisky content is 1 per cent.

Mr Tim Jackson, who lobbies on behalf of Scotland's whisky distillers, wants to stamp out manufacture and sales of such drinks. "There is a plethora of imitation whisky products on the market, packaged so the consumer would believe it is genuine Scotch whisky," he said, adding that such "misleading" products now account for as much as 60 per cent of the whisky market in Taiwan.

The matter is not academic. Scotch whisky was the UK's fourth largest export in 1996 at £2.5bn ($1.56bn). Taiwan is the world's fifth largest export market for Scotch whisky after the US, France, Spain and South Korea. But Taiwanese imports of genuine Scotch whisky fell from a peak of £85m in 1996 to £70m last year.

The boom in "bootleg" whisky over the past 18 months is due to the fact that Taiwan taxes Scotch whisky at more than double the rate on whisky of any other origin. Unlike many markets, Taiwan has no legal framework defining names and setting labelling regulations for origin, content and age claims for spirits.

Such rules in 1993 helped the EU win a landmark case against Japan which ruled that all spirits must be taxed equally. The EU also won a case securing a ban on the sale of Chimas Teacher in India's domestic market.

Taiwan's national legislature is reviewing a package which would finally dismantle a monopoly on production of alcohol products and liberalise the industry. The draft legislation includes provisions to equalise tax rates regardless of origin, basing future import duties on alcohol content.

But the long-delayed reforms do not address the key issue of labelling and definitions, which ideally should recognise such geographically based names as "scotch", "bourbon" and "cognac", so they cannot be abused.

Mr Jackson urges that any new legislation should be based on EU and US definition standards. "This would bring Taiwan into line with international practice and with requirements of the World Trade Organisation," he said. Taiwan is keen to enter WTO and is negotiating to secure backing for its entry attempt.

The real drink: Now Taiwan is reviewing a package to bring in its own long-delayed reforms Glyn Genin

WORLD TRADE NEWS DIGEST

Beckett in BA merger talks

Mr Karel Van Miert, the EU competition commissioner, today meets Mrs Margaret Beckett, the new UK trade and industry secretary, to discuss the proposed alliance between British Airways and American Airlines. Mrs Beckett is awaiting a report from the Office of Fair Trading before deciding whether the deal can go ahead.

The OFT recommended last year that the alliance be allowed if BA and American gave up 168 weekly take-off and landing slots at London's Heathrow airport. It has been consulting with the industry on its recommendation.

The European Commission, which is conducting its own investigation into the alliance, says the OFT's recommendations do not go far enough. The proposed tie-up is also being investigated by the US authorities. Sir Colin Marshall, BA's chairman, yesterday attacked "excessive scrutiny by Brussels, Whitehall and Washington" for delaying the deal, which was announced last June. BA said the formation last week of the five-airline Star Alliance meant there was no basis for rejecting the BA-American link-up.

Star Alliance groups Lufthansa of Germany, United Airlines of the US, Scandinavian Airlines System, Air Canada and Thai Airlines.

Emma Tucker, Brussels and Michael Skapinker, London

Lex Comment, Page 22

Isuzu settles Polish row

Isuzu Motors of Japan has resolved its differences with the Polish government over local content in its planned diesel engine project and has agreed to build a plant within two years. The DM200m ($116m) plant will be located in the Tychy special economic zone in the industrial district of Silesia. The zone gives investors a profit tax holiday for the first 10 years followed by a 50 per cent reduction for the following decade.

The tax break regulations originally stipulated that local content should reach 30 per cent. Under the agreement, Isuzu has promised to use local goods and services worth 15 per cent in the first three years of production rising to 30 per cent in the eighth year. *Christopher Bobinski, Warsaw*

US courier in Vietnam deal

Federal Express, the US courier service, has received permission to start a charter service to Vietnam, giving it clearance for direct flights to the country. The move comes only two weeks after arrival of the first US ambasssador to Hanoi and is a further sign of progress in normalisation of economic ties between the two former enemies.

The company said it had approval from the US ministry of transport, which had agreed the move with Hanoi. The US and Vietnam are negotiating a civil aviation agreement that would allow direct flights that would establish the first air links between the two countries since 1975.

Flag carrier Vietnam Airlines is keen to start flying to selected US destinations. Delta Airlines, United Airlines and North West Airlines are interested in flying to Vietnam. A US federal aviation official in Washington said progress had been made in negotiations with Hanoi on a bilateral aviation pact.

Vietnam had apparently relaxed its opposition to discussing profit sharing arrangements and so-called fifth freedom rights. *Jeremy Grant, Hanoi*

Ban to cover 'all forms of tobacco advertising, including sponsorship'

Anti-tobacco drive to be widened

By Nicholas Timmins and Ross Tieman

The government's draft bill on tobacco advertising will include a ban on sports sponsorship, Mr Frank Dobson, the health secretary, said yesterday.

The announcement that sponsorship would be included in the legislation took both the industry and sport by surprise. Previous indications were that it would be included in the government paper on a tobacco advertising ban planned for the summer, but that legislation on sponsorship might well come after an initial ban on other forms of advertising.

But while the draft bill will now cover "all forms of tobacco advertising, including sponsorship", sport will be given time to find more "benign" sponsors, Mr Dobson told the Royal College of Nursing's annual congress.

"We recognise that some sports are heavily dependent on tobacco sponsorship," Mr Dobson said. "We do not wish to harm these sports. We will therefore give them time and help to reduce their dependency on the weed."

The industry spends about £8m ($12.96m) annually on sponsorship in the UK – more around the world – with cricket, golf, rugby league, darts and snooker among the beneficiaries.

But while the tobacco industry declared itself "very disappointed" with the move and angry that health ministers have so far refused talks on the issue, Sir Rodney Walker, chairman of both the English Sports Council and Rugby Football League whose challenge cup is sponsored by Silk Cut said the decision was "consistent with what I've always been led to believe will happen".

Many sports, including rugby league, would face problems in finding alternative sponsors, he said, "but we haven't sat idly by waiting for that day to come. No sensible or prudent organisation would do that".

Sport governing bodies are hoping that Mr Dobson's remarks imply that existing contracts will be allowed to run, although with some contracts extending into the next decade the government may want swifter action.

Gallaher, which has 40 per cent of the UK market, said the announcement made no difference to its plans to demerge from its US parent American Brands, with trading in its shares due to start on May 30.

Britain saw no threat to its warm relations with the US from the Labour government's emphasis on a more committed role for Britain in Europe, Mr Robin Cook, the foreign secretary, told Ms Madeleine Albright, the US secretary of state, yesterday, Gerard Baker writes in Washington. Speaking after the meeting, he said he had told Ms Albright that being fully involved in the European Union would make Britain a more valuable ally for the US than it had been under the previous Conservative government. It had then been isolated on the European fringes.

Mr Cook also met Mr William Cohen, the defence secretary, Mr Sandy Berger, President Bill Clinton's national security adviser, and senior figures in Congress. He paid tribute to the US administration's continuing efforts in the Northern Ireland peace process and its role in peace-keeping in Bosnia.

But he warned that any attempt to deny China most favoured nation status in US trade policy would not benefit the people of Hong Kong. Some US senators and congressmen are pledging to oppose MFN status for China because of concerns about Beijing's treatment of Hong Kong when it is returned to China on July 1.

Utilities call for equity in windfall tax

Levy 'should take account of exceptional circumstances of phased offerings'

British Telecommunications and electricity generators should pay proportionately less windfall tax than water and regional electricity companies, according to figures passed to the Treasury by PowerGen, one of the privatised generators. A "windfall" tax on the profits of privatised companies was one of the main planks of the Labour party's general election campaign.

The figures show that, because BT and the generators were sold in tranches in the last government's programme of public offerings, returns since privatisation have been shared more equally between shareholders and taxpayers.

The calculations show that more than half the returns generated by BT since privatisation have gone to taxpayers. For the generators the figure is just under half. But only 6 per cent of water companies' returns have been received by taxpayers.

When estimating distributions of the tax, most City of London analysts have tended to ignore the fact that the government retained large stakes in BT and the generators after the initial offerings. But by delaying the further BT sales, the government made a capital gain of £6.9bn ($11.17bn) and received £2.4bn of dividends.

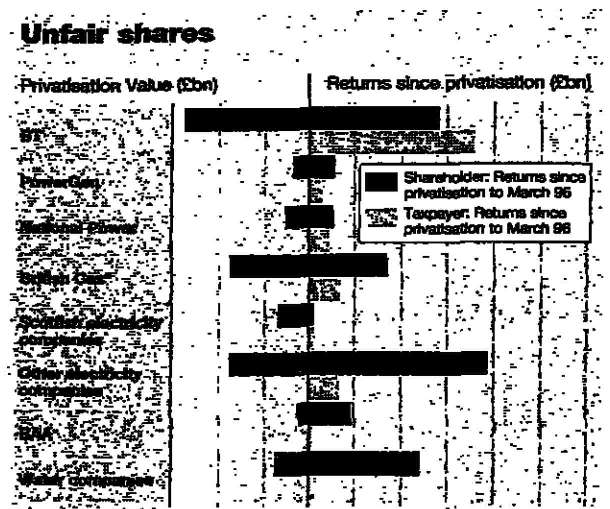
In its submission PowerGen concedes that the government has "a clear mandate" to levy a windfall tax. But it says calculation of the tax should take full account of the "exceptional circumstances" of those companies sold off in stages. "The Treasury's decision to retain a 40 per cent shareholding in PowerGen until March 1995 has already greatly benefited the taxpayer.

"As a result, the taxpayer has already received a much higher proportion of the gains from PowerGen's success than has been the case with, for example, the regional electricity companies and the water companies."

PowerGen's calculation shows the problems faced by the Treasury in producing an equitable formula for calculating companies' liabilities. Any relatively crude measure, such as a multiple of "excess profits", would be inequitable if it failed to take phased sales into account. BT shareholders have had lower returns than if all the shares had been sold initially.

In its submission, PowerGen says the "principal burden" of any windfall tax should fall on companies where the taxpayer has benefited least from the total returns since privatisation.

The graphic here shows how widely the post-privatisation split in returns between shareholders and taxpayers varies. The water companies have shown the lowest returns to taxpayers because their huge capital allowances have sheltered them from corporation tax. The water company returns look particularly large compared with the flotation "value", which is calculated by subtracting the cash "dowry" injected into their balance sheets from the proceeds of the share sale. Conversely, in BT's case the £6.48bn of privatisation debt has been added to the value of all the shares at the original flotation price. Yet, it could be argued that it is the returns to shareholders compared with their original investment that is significant, whatever additional value has been received by the taxpayer.



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David Wighton

BBC to launch on-line magazines

By Raymond Snoddy in London

The BBC will today launch "beeb @ the BBC", the public-service broadcasting corporation's first big move into the commercial world of the internet.

The BBC announced a joint venture with ICL in September to develop a commercial service for the internet. Mr Keith Todd, chief executive of ICL, the UK computer company owned by Fujitsu, at the time promised "many millions of pounds" would be devoted to developing the service.

The content of the site, most of which will be available free, is being arranged into 'webzines' – on-line magazines – focusing on sport, television and film, motoring, travel, comedy, science fiction and 'edutainment' – entertainment and education.

An on-line BBC shop selling videos, compact discs, tapes and books will be launched next month. One website, TopGear, was launched in March. The next, The Score, will be launched next month with the aim of providing sports fans with the latest sports news and results, including ball-by-ball coverage.

The corporation is offering advertisers "tailored solutions using strong audience profiling" on Beeb. It plans to form partnerships with advertisers who commit to the project at launch. Such advertisers would be given privileged access to audience data as well as protected advertising rates.

Although most of "beeb's" content will be freely accessible, there will be some premium services within the webzines such as fantasy games and virtual environments.

The service notes that it "reserves the right to charge basic subscriptions for accessing whole areas of content".

The address of the new BBC site is http://www.beeb.com

UK NEWS DIGEST

US banks drive offices growth

Rapidly expanding US banks and financial services companies are helping to drive the high growth in the central London office market, says a survey by Chesterton, the property consultants.

It says that 10 large US-based finance houses are actively searching for a combined 1.42m sq ft of new office space, equivalent to 64 per cent of their total current occupation. Among firms seeking extra accommodation are Goldman Sachs, Merrill Lynch and Credit Suisse First Boston.

Mr Mark Bourne, an analyst at Chesterton, said: "This trend will be of immense benefit to the UK economy, at least in the short term.

"These US finance houses will need to take on another 9,400 or so additional staff and there will be a boost to developers, landlords and the construction industry as sites are developed out." *Mark Suzman, London*

■ ECONOMIC SURVEY

Leap seen in consumer confidence

A survey for the European Union published yesterday revealed a post-election leap in UK consumer confidence. Nearly 40 per cent of those surveyed said the UK's economic situation would improve over the next 12 months, compared with only 16 per cent in April.

The government's revenue from income tax in April was higher than expected at £6.45bn ($10.44bn), £600m more than April last year, aided by the high level of bonuses and profit-related pay awards to financial sector workers. The higher tax take, combined with £1.4bn of asset sales, meant the government accounts recorded a £36m surplus during the month. *Richard Adams, London*

■ SCOTTISH EXPORTS

Surprise increase in first quarter

Exports from Scotland increased slightly in the first quarter of 1997 compared with the fourth quarter of 1996, in spite of the strong pound. The Scottish Council Development and Industry, which compiles a quarterly index based on companies accounting for about half of Scotland's exports, said the outcome was doubly surprising since exports usually reach their annual peak in the fourth quarter and then decline in the subsequent quarter. Nearly half of Scottish exports come from electronics companies – the "Silicon Glen" groups – whose products have a high import content. *James Buxton, Edinburgh*

■ WATER SUPPLY

'Leakage targets' for companies

Water supply companies are to be given "mandatory" leakage reduction targets annually, Mr Ian Byatt, director-general of the government's Office of Water Services, said yesterday. His announcement came after Mr John Prescott, the deputy prime minister, had told water industry chiefs that the government wanted "real changes" in companies' ability to cut leakage. He told them to make maximum use of existing water supplies before they could think of building environmentally-damaging new reservoirs. He gave the industry three weeks to respond to proposals. *Leyla Boulton, London*

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Lloyd's plans to cut costs by 10%

By Christopher Adams, Insurance Correspondent

The Lloyd's of London insurance market plans to cut the cost of running its central services monopoly this year by as much as £20m ($32.4m).

A document published by the insurance market yesterday shows that the corporation, which pays the salary of Sir David Rowland, Lloyd's chairman, could cut expenses by 10 per cent. The services division at the heart of Lloyd's employs more than 2,000 staff and cost £180m to run last year.

Its tasks include processing policies and claims. It is also responsible for promoting Lloyd's outside Britain. The insurance market took the first steps towards "unbundling" the services it provides when it split the corporation into five business units at the beginning of 1997.

In an increasingly competitive global insurance market, the aim of the move was to allocate costs more accurately, and eliminate subsidies by moving towards a "user pays" system.

● Thousands of Names at Lloyd's are to be offered a way to convert to limited liability through a quoted investment trust. Names are individuals whose assets have traditionally backed the insurance market.

Plans to launch the vehicle come as Lloyd's prepares to raise substantially the amount of capital required by Names to support their underwriting activities at the insurance market, a move which could make unlimited liability less attractive.

LRG Cater Allen, one of many members' agents who handle the affairs of Names at Lloyd's, has devised the scheme. It is not the first conversion scheme for Names but Mr Edward Bloxham, chairman of LRG Cater Allen, believes it will avoid the costs associated with others.

Individuals promoting Alternative Investment Market listings must be named

Exchange tightens rules on Aim

By Christopher Price in London

The London Stock Exchange yesterday tightened the rules governing the Alternative Investment Market in order to force the naming of all individuals or organisations promoting a company seeking a listing.

The move follows concern that a small but well organised band of investors is using the less onerous regulations of the junior market in order to float potentially vulnerable companies.

The activities of the individuals are also understood to have caught the attention of the Securities and Investments Board and the Securities and Futures Authority, in addition to the stock exchange.

They are understood to have launched an inquiry into how certain companies have been set up, both on Aim and the main market.

The stock exchange said yesterday it had uncovered little evidence of attempts to inflate share prices artificially. However, it believed that investors should be aware of exactly who is involved in bringing a company to Aim. "The involvement of certain individuals may be relevant to an investment decision and should therefore be disclosed," said Ms Theresa Wallis, chief executive of Aim.

Under the new rules, companies must disclose the name of anyone who has received fees or shares worth £10,000 or more in the 12 months prior to the listing. It is aimed at individuals or organisations that have a reputation for financing a listing and sell their interests as quickly as possible on flotation.

While the exchange is keen to stress there is nothing illegal in this, it believes investors' interests are best served by shareholders that retain a long-term interest.

One of the individuals being targeted by the exchange said yesterday: "People will still come to us. We will abide by whatever the rules are. We have done nothing wrong and the exchange is just reinforcing its monopoly situation. Smaller company shares have to be promoted and that's all we do."

A related rule was introduced yesterday requiring nominated advisers – who must be retained by a company and undertake to scrutinise its behaviour – to be satisfied a company is "appropriate" for Aim. The exchange is concerned that companies have come to the market too early and have met trouble.

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Government scorns Sinn Féin MPs' visit

By John Kampfner, Chief Political Correspondent

Sinn Féin, the political wing of the Irish Republican Army, yesterday used a high-profile visit to the House of Commons by its two MPs to assert their right to full facilities at Westminster. The British government denounced the trip by Mr Gerry Adams and Mr Martin McGuinness, Sinn Féin's two most prominent figures, as "a stunt".

However, ministers were privately relieved that the two stopped short of causing potential embarrassment by walking into the chamber of the Commons.

Ms Marjorie Mowlam, the government's chief minister for Northern Ireland, said: "This is propaganda in my mind, it is about media headlines. If they wanted a voice then they would be in the House – they are not; they don't want to be in the House; they just want to get an office and the other bits."

Mr Adams, who is president of Sinn Féin, and Mr McGuinness, its chief negotiator, are expected to head a delegation to meet British officials in the next few days following the announcement last Friday by Mr Tony Blair, the prime minister, that exploratory talks can go ahead before a formal ceasefire restoration by the IRA.

In a day of meetings with Commons officials, the Sinn Féin MPs were told that from tonight they would have privileged access to the building only if they swore the customary oath of allegiance to Queen Elizabeth.

Under Sinn Féin's rules, the oath represents acceptance of British rule over the six counties of Northern Ireland and is unacceptable. Mr Adams refused to take it during his nine years nominally as an MP from 1983 to 1992.

Miss Betty Boothroyd, the speaker, said last week she was changing the centuries-old regulations which allow elected MPs who do not take the oath to use parliamentary facilities as long as they do not seek to speak or vote in the chamber or table questions. Mr Adams said the new rules were "arrogant and anti-democratic".

PA News

With Big Ben in the background, Martin McGuinness (left) and Gerry Adams make their way from the Houses of Parliament to an open-air press conference yesterday

Bank chief to head tax reform group

By David Wighton, George Graham and Christopher Adams

The government yesterday underlined its commitment to work closely with business by announcing that Mr Martin Taylor, the chief executive of Barclays Bank, is to head a state task force on reform of the tax and benefits systems.

The task force, consisting of senior officials from a number of government departments, will consider options for modernising the system to improve work incentives and reduce welfare dependency. Mr Taylor's part-time post is the latest in a series of government appointments of leading businessmen, including the ministerial role and peerage for Sir David Simon, former chairman of British Petroleum.

In a speech to the Confederation of British Industry annual dinner tonight, Mr Gordon Brown, the chancellor of the exchequer, will promise further appointments from the business world. "There can be no greater signal of our determination to work with business than these appointments," he will say.

Mr Brown said Mr Taylor would bring a "first rate mind" to bear on the problems and an "ability to find practical solutions that make a long term difference".

Mr Taylor, who will devote about two days a month to the unpaid post, said he was coming to the area with an open mind.

"I am beginning to learn that I am about the only person who hasn't written a book about it." However, Mr Taylor said he had been interested in the area since he worked as a journalist on the Financial Times.

"From my knowledge of the tax and benefit systems, there are a number of perverse interactions between the two systems. I think our job is to examine ways in which the systems in their present form influence work incentives," he said.

One of the most highly regarded of leading businessmen, Mr Taylor, 44, was appointed chief executive of Barclays in 1993, after three years as chief executive of Courtaulds Textiles.

Downing Street said that by tapping into business government was "getting brain power which otherwise would not be available". Mr Taylor also brought experience of working across departments and of "driving through a process".

EU demands progress on cull before beef ban can end

By Alison Maitland in London

The UK does not appear to have met all the conditions for lifting the European Union's ban on exports of British beef, Ms Emma Bonino, the EU commissioner responsible for food safety, said yesterday.

Ms Bonino will today discuss the five conditions agreed in Florence last June when she has her first meeting with Mr Jack Cunningham, the British agriculture minister.

Mr Douglas Hogg, agriculture minister in the previous government, insisted in February that Britain had fulfilled all the conditions when he put forward proposals for the ban to be eased for beef from certified BSE-free herds.

But Ms Bonino said that problems remained, in particular with the slow progress of the selective cull of some 100,000 cattle in the UK considered most at risk of developing BSE.

The previous government argued that the Florence deal required the UK to begin the cull, not complete it, to meet the conditions. Ms Bonino said this was open to question.

Since the cull began in February, 3,254 cattle have been slaughtered. Officials said it had taken longer to visit farms check records and value cattle than expected.

Ms Bonino, who was given responsibility for EU consumer health protection last month, said the Commission was keen to co-operate with Britain's Labour government in achieving a removal of the ban. This could include speeding up inspections by European officials of UK abattoirs, meat plants and feed mills to check they are complying with safety rules.

The ban, imposed in March last year, has cost British producers an estimated £450m ($730m) in lost export sales. Domestic beef sales have recovered strongly but are still 19 per cent lower than two years ago, said the Meat and Livestock Commission.

Ms Bonino, who is also responsible for fisheries, warmly welcomed the speech last week by Mr Elliot Morley, the British fisheries minister, which emphasised conservation of fish stocks as a top priority. "I very much share his views," she said.

She said she was keen to help the UK overcome the problem of quota-hopping, where foreign-owned vessels buy British licences to gain access to UK fishing quotas.

But she said changing the Treaty of Rome, as proposed by the previous government, was "a non-starter" because all economic sectors would be affected by any move to limit the freedom of movement of capital in the fishing industry.

Mr Morley will attend fisheries talks in Brussels today. British officials said the idea of a protocol amending the treaty was still on the agenda but ministers would be "willing to listen to whatever ideas Ms Bonino puts forward on this".

TECHNOLOGY

A robotic device is poised to take on the skilled craft of blowing glass, writes **Anna Kochan**

A touch of glass

Clear favourite: the French answer to the human glassblower

Robots are muscling in on the craft of glassblowing, practised by humans for centuries and still widely used to make everyday vases, ashtrays and light fittings.

CyberGlass, a small French company based near Avignon, claims to have developed the first robotic glassblower. One is now installed in industry, with a further two due for delivery later this year.

Glass containers such as vases and bowls are formed in two operations. They start as a hot gob of molten glass at between 1,100°C and 1,300°C, which has the consistency of a heavy syrup. In the first mould, the external shape of the container starts to be formed. It is completed in the second mould, which is also where the blowing operation is performed to generate the internal shape.

CyberGlass's robotic device performs both the manipulation and the blowing operations. It is based on a standard Fanuc industrial robot, modified to withstand the high temperature. The tooling fitted to the robot's wrist is made up of a hollow cane attached to a pair of tongs. The tongs hold on to the molten glass throughout the cycle. Compressed air is delivered to the glass via the hollow in the cane and provides the "puff" to blow the glass to the required shape.

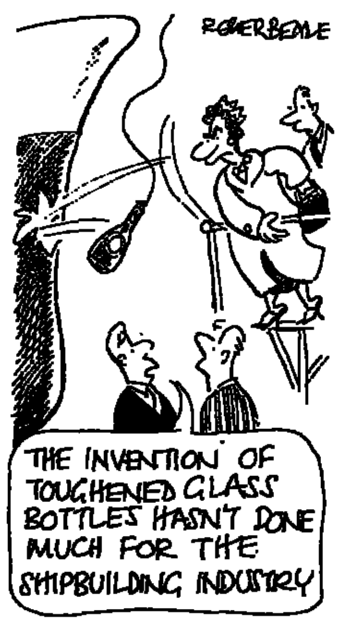
The challenge of developing the robotic glassblower was to transfer the expertise of the human operator to the robot, says Frederic Berud, CyberGlass joint managing director.

"The glassblowing task involves simultaneously manipulating the molten glass and blowing it, using a blowing pressure which varies all the time. It was not easy for the operator to explain his actions at every moment of the cycle," says Berud.

It is too soon to quantify the benefits of robotic glass blowing, he says. The device costs FFr1m (£107,000) and provides a cycle time that is only slightly faster than that of a human operator. However, a robot works with consistent speed and quality, and for 24 hours a day.

The advantages are therefore higher productivity and lower wastage, claims Berud. Because of the robot's flexibility, the best results will be achieved by companies making small batches of a wide range of products, he adds.

CyberGlass was set up in 1993 with the development of a robot that can transfer molten glass from the furnace to the shaping process. More than 40 of these glass-gathering robots have since been delivered in Asia, Africa and Europe. The productivity gains reported are between 30 per cent and 40 per cent compared with existing methods.



Strength boost for bottles

Glass bottles could be both lighter and stronger if a new technique for removing surface flaws is adopted. It is a coating, developed by BTG of the UK, which "heals" fine cracks.

More than 200bn glass products are made every year around the world, but glass is in only fourth place as a consumer packaging material, behind paper and board, plastic and metal. The availability of stronger, lighter bottles could change that.

Glass fractures at less than its maximum strength because of the microscopic cracks which develop in the surface during production, handling and distribution. Several surface treatments are used in special cases to limit the weakening effect of surface flaws but they are complicated and expensive, limiting their use.

The new process is an aqueous emulsion of a polymerisable silane, an inorganic silicone, in an epoxy resin. The silane keys on to the surface of the glass and, during curing, links into the epoxy to form a hard, durable coating on the surface of the glass. A high concentration of silane is possible because of the presence of a catalyst which prevents the gelling in contact with water.

The result is a strong bond between the glass and the coating which welds the surface cracks together, strengthening the product.

The new coating, less than 10 microns thick, is applied by dipping or spraying. Once applied, it cures rapidly under exposure to ultra-violet light, or it can be heat cured. Being water-based and with no need for organic solvents, there are no environmental problems to be solved.

Tests show that the burst strength of glass bottles is increased by more than 50 per cent which makes the process particularly suitable for the bottled drinks market.

BTG, formerly British Technology Group, specialises in patenting new discoveries and licensing them internationally. It is seeking industrial companies to develop the patented coating process under licence.

Michael Sibley

Update • Re-Mark-It

Inventor starts again with a clean slate


JULY 13 1995

A businessman inventor has teamed up with ICI to market an updated magic slate, writes Clive Cookson

A label that sticks

THEN: Re-Mark-It, a high-tech erasable label, received its world launch in the UK in July 1995. It was an ultra-sophisticated version of the child's magic slate. You wrote on it with a fingernail, blunt pencil or any pointed instrument, and erased it with a sweep of the finger from a green arrow on one side of the label to a red dot on the other.

Its inventor, Clive Bilbie, a New Zealand entrepreneur, had worked for five years to develop Re-Mark-It in collaboration with several large companies. Imperial Chemical Industries, the UK chemicals giant, played a key role by coming up with a five-layer polyester film strong enough to be written on or erased more than 1,000 times without being damaged.

Re-Mark-It launched initially in the form of message pads and erasable labels for computer discs and video cassettes. Enthusiasts in the stationery business acclaimed it as a future "super brand" in the same league as 3M's Post-It notes.

NOW: Despite the hard work of Bilbie and his partners, some products showed unforeseen technical problems. For example, the disc labels were not heat-resistant enough to retain their writing inside some computers. So Re-Mark-It has been entirely redeveloped over the past 18 months and the company has come up with a quite different marketing strategy. In effect, the brand is being relaunched this summer.

Last year Re-Mark-It set up a factory on an industrial estate in the Netherlands, close to Amsterdam's Schipol airport, with one of the world's most sophisticated printing presses, a £1.2m machine made by Arsoma of Germany.

"The original launch did not go as well as they had hoped and we always feared they were under-resourced," says Gary Rhoades of ICI's Melinex films business, who worked with Re-Mark-It to develop the product.

"But they are well protected by their patents and I think they have learned a great deal since they have been in Amsterdam," he adds. "We are still supporting them strongly and hoping they will be successful."

While Bilbie remains in New Zealand, Marcus Dymock, his business partner for 17 years, is running the European operation. "Nothing about the product is the same as it was two years ago," Dymock says.

When you write on a Re-Mark-It pad, the top and bottom layers stick together. This produces a striking change in contrast, so that the writing shows up dark blue against a pale blue background. Surface tension keeps the sheets in contact, until the user erases the message by pushing a small pulse of air through the label from an embossed button on the left to a tiny pair of vents on the right.

> **'Nothing about the product is the same as it was two years ago'**

The films, and the way they are put together, have been changed to make Re-Mark-It more durable and heat-resistant. An essential new ingredient, Dymock says, is a synthetic wax polymer made by Burmah Castrol, the UK specialist oils company, to lay on top of the ink.

Dymock says it took more than a year to optimise the production processes after the 27m long press with its 18 printing stations had been installed in the Dutch plant. "We acquired printing skills that no one else seems to have – multi-web printing and laminating on four surfaces at the same time. We have precision, computer registration, tension and temperature control through 18 processes in one pass to provide a huge range of products."

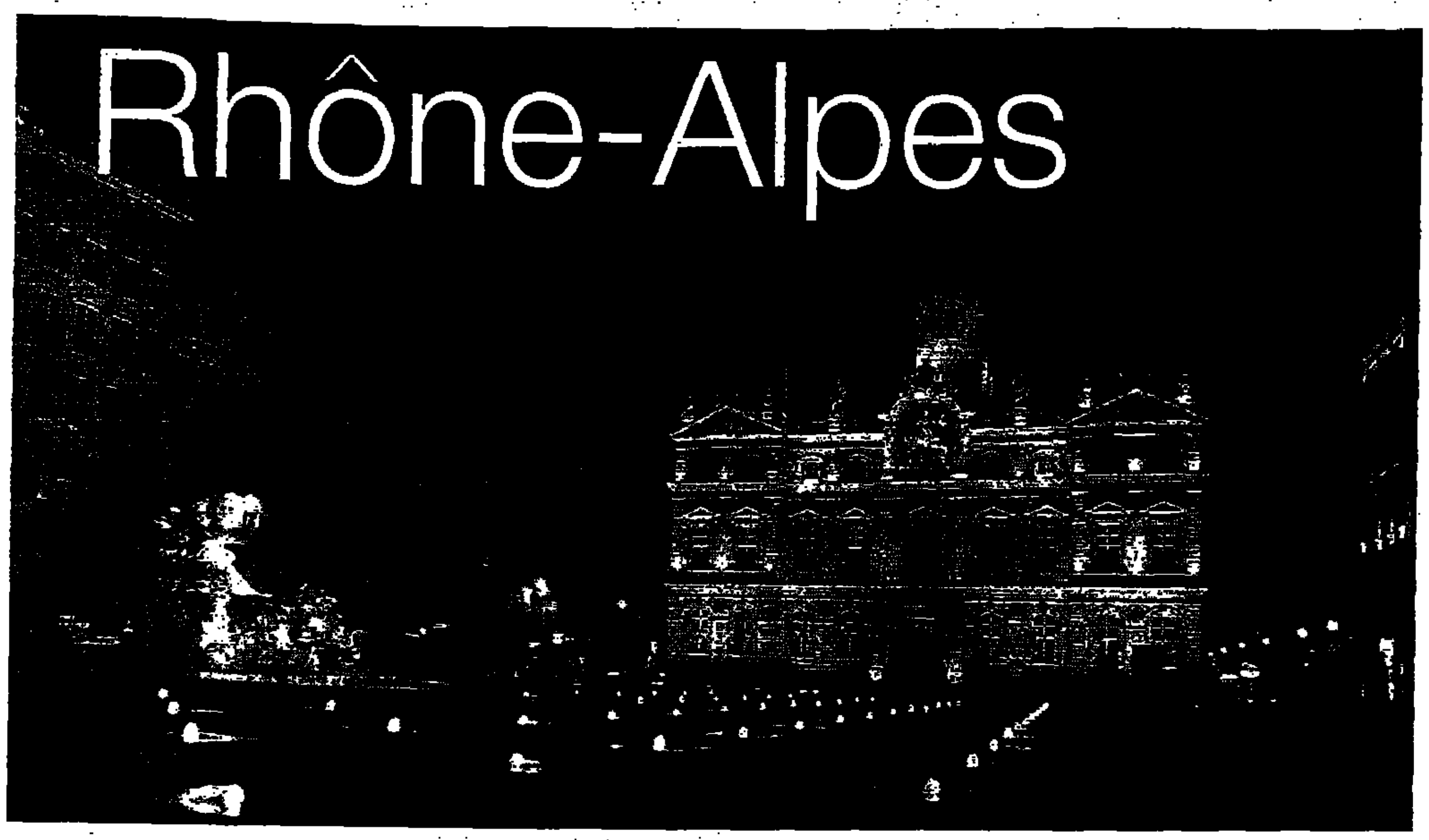
Re-Mark-It's marketing strategy is to focus on the promotional market, selling large numbers of labels to consumer-oriented companies to give away as gifts to customers. The products can contain sophisticated text and graphics, including "message bubbles": they enable users not only to write and erase their own messages but also to reveal hidden text or graphics that has been pre-printed on the label.

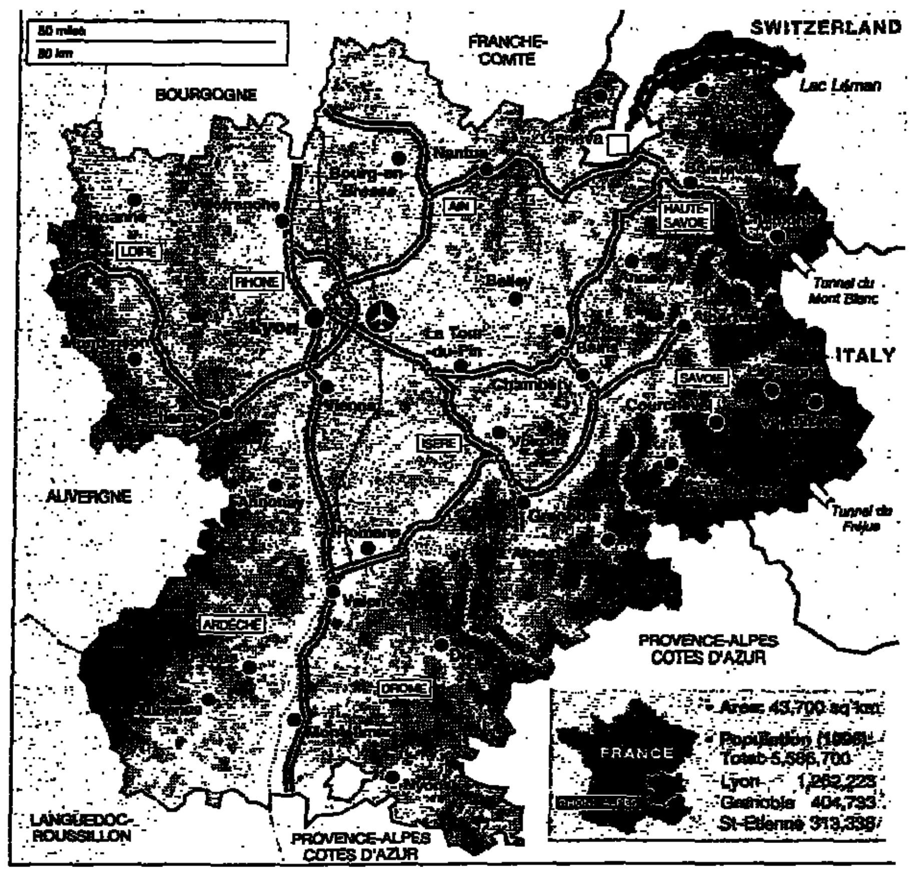
"We want to exploit the novelty value while we have it," Dymock says. "In this way, we can create market awareness, people will know how to work [Re-Mark-It] and then the retail market will want it."

Now that Re-Mark-It has developed its commercial product, the company is looking for corporate partners who could help it make the most of the technology. Rights to the intellectual property will be made available for specific markets around the world.

Clive Cookson

Rhône-Alpes





Links with the south are being strengthened as the region recreates its role at the centre of continental trade flows, writes **David Owen**

Pulling together at the heart of Europe

It is as if the Rhône had changed direction. After years of fixing its gaze neurotically on Paris, when not staring doggedly at its own navel, the city of Lyon – and the surrounding Rhône-Alpes region – is starting to rediscover the south.

The switch is evident in various ways, from a new spirit of co-operation with Marseille, Lyon's traditional rival, to the high priority accorded by local politicians and business leaders to the construction of a new train à grande vitesse link through the Alps to Turin.

It is evident too in the way Mr Raymond Barre, the former French prime minister who is now mayor of Lyon, explains how a Latin arc – encompassing cities such as Barcelona, Lyon itself, Geneva and Genoa – can act as a "counterweight to the rapid development of central and northern Europe".

On one level, the shift in emphasis is a common-sense response to an opportunity that geography and international politics have combined to offer the region.

The development of the single European market puts Rhône-Alpes close to the centre of a lucrative continental market of 250m-300m people. By bringing southern links up to the level of those forged with central and northern Europe, the region can reclaim the role it once had as a centre for trans-continental trade flows.

Mr Charles Millon, the president of the Rhône-Alpes regional council who is also France's current defence minister, is not the only leading local figure to talk of making the region once again the "crossroads ... it was at the end of the Middle Ages". Its record FFr40bn international trade surplus, meanwhile, indicates the extent to which regional manufacturers are already exploiting the opportunities opening up to them.

But it is hard not to conclude that the strengthening determination to focus less exclusively on the French capital also stems in part from moves to decentralise power to the regions. This trend has been gradually taking root in highly centralised France since the passage of ground-breaking legislation by the then Socialist government in the early 1980s.

The impact of these reforms in Rhône-Alpes has been overshadowed in recent years by a string of scandals affecting leading regional politicians, not to mention intense rivalries between some of the biggest cities. But there are mounting signs that Mr Barre's consensual prodding, supported by the influential Mr Millon, is encouraging the various power centres of this diverse and varied region to pull together to better effect.

One much-cited example is the way a so-called "network of towns", comprising the eight largest population centres including Lyon, St Etienne and Grenoble, has been developed and is starting to function more effectively. "I think the mayors have understood that the towns complement each other," says Mr Millon.

Mr Barre, talking in his elegant and spacious office in the town hall near Lyon's extensively remodelled opera house, evidently sees the network as a model that could have broader applications. "My view is that we will see French formulas where there will be networks of towns around one big town and between eight and 10 regions," he says.

There are even suggestions that Rhône-Alpes is beginning to develop into the sort of regional powerhouse that bears comparison with Spain's Catalonia, Italy's Lombardy or some of the German Länder.

In the words of Mr Jean-Christophe Bas, Lyon-based director of Institut Aspen France, a think tank: "I think a lot of foreign observers think something new is happening here: the emergence of a French region that sees itself not with reference to Paris, but in its own frame of reference."

Mr Robert Maury, director of Aderly, the Lyon regional development agency, says: "We want to show that outside Paris, there is a French city that brooks comparison with cities such as Stuttgart, Barcelona and Turin. Now we are beginning no longer to feel obliged to go via Paris. This is fundamental."

Many find such suggestions far-fetched, arguing that a construct as diverse and artificial as Rhône-Alpes cannot hope to achieve the strength of identity of, say, Catalonia with its distinctive language and aspirations to statehood. "I think Lyon will never be a great international city," says Mr Michel Charrier, the widely respected leftwing mayor of Vaulx-en-Velin, a poor town in the Lyon suburbs that has witnessed a number of flare-ups of urban violence in recent years. "There are fine words but not much content."

Certainly, there are plenty of gaps, according to Mr Michel Foucher, director of the Observatoire Européen de Géopolitique, another Lyon-based think tank. For all the region's industrial strength in areas such as textiles, plastics, chemicals and pharmaceuticals, the headquarters of virtually all France's biggest companies are in the Paris area. Mr Etienne Subra, regional director of the Banque de France, says there are fewer foreign banks in Lyon than there were seven or eight years ago. The magnificent stock exchange chamber with its grey-green curtains and elegant arches is now silent.

And yet there has been progress too. Lyon made a good fist of hosting last year's Group of Seven summit in its new Cité Internationale in the Parc de la Tête D'Or. The Ecole Normale Supérieure Langues, Lettres et Sciences Sociales is poised to move to the city in what Mr Foucher says will be the "second time since Napoleon" a grande école has come to Lyon. There is also plenty of foreign investment: today it accounts for 20 per cent of overall investment in the Lyon region and for 20 per cent of employment.

Some commercial organisations, meanwhile, are beginning to find that the region is a sensible scale on which to operate. According to Mr Jean Fluchère, regional delegate for Electricité de France in Rhône-Alpes: "The departmental scale is too small. The region seems to us today to be much better adapted to our work because it is bigger."

Both Mr Barre and Mr Millon think the decentralisation process has further to go in France. "We must pursue this policy," says the Lyon mayor. "The Socialists helped the French regions to realise what they were capable of ... But now we must pass to another model of French society. It is not just a question of sharing out certain powers. We must arrive at a situation where responsibilities are clearly defined and can be exercised freely."

Mr Millon justifies greater decentralisation partly on grounds of efficiency. "It is easier to prioritise economic development, education and innovation when you mobilise local energy," he says.

Some observers even argue that Rhône-Alpes' lack of cultural and geographic cohesiveness may in the end help rather than hinder. "A lot of people think the handicap of Rhône-Alpes is that it doesn't represent a historical or cultural entity," says Institut Aspen France's Mr Bas. "I think on the contrary the strength of Rhône-Alpes is to be at the same time alpine, mediterranean and urban. When I was moving here, I didn't care about history – but that you had in a confined area all you could love in life."

ECONOMY • by David Owen

Recovery from the 'big disappointment'

Order books and output are rising after a poor year in 1996

A year to forget. That is how the Rhône-Alpes regional chamber of commerce and industry sees 1996 in terms of the development of the regional economy.

Though the verdict of other observers and organisations is less definitive, there is general agreement that the year was a difficult one in which not even the region's exceptionally diversified industrial base could ward off the economic malaise afflicting the whole of France.

That said, unemployment – at 11.5 per cent at the end of June – remained significantly lower than the national average, as did the rate at which the number of jobless increased during the year. Furthermore, a tentative upturn in industrial production in recent months is leading many to predict a noticeable improvement this year. In the words of Mr Raymond Barre, the mayor of Lyon: "1997 has started more auspiciously... Where we are fortunate here is in having a greater number of dynamic enterprises than there are elsewhere."

Among a series of unfavourable trends – falling order books, rising stocks, continuing difficulties in the building and public works sector - the regional chamber of commerce and industry singles out investment as the "big disappointment" of 1996, saying it progressed "much less than expected".

It says weak activity led regional entrepreneurs to cancel, suspend or revise downwards numerous investment projects. The "general morosity" of the business climate also resulted in a marked reduction in the number of new businesses created. This "confirmed and amplified" a trend registered in 1994.

Robert Maury: Rhône-Alpes was a "pioneer region for exports"

The undoubted strongpoint of the year for the Rhône-Alpes economy (as for France as a whole) was international trade, with the region's trade surplus climbing to FFr40.7bn – the third consecutive annual record. Exports climbed a healthy 6.5 per cent to just over FFr170bn, against growth of just 3.3 per cent for imports. The region enjoyed greatly increased surpluses with some of its main international trade partners, including Germany, Belgium/Luxembourg, Spain and Sweden. According to Mr Etienne Subra, regional director of the Banque de France in Lyon, industrial companies in Rhône-Alpes, excluding building and public works, currently export between 30 and 33 per cent of their output. This proportion, he says, "continues to climb".

Mr Robert Maury, director of Aderly, the Lyon regional development agency, says the region's export success follows significant efforts in the 1980s to encourage companies to broaden their focus beyond developing markets such as Africa. Rhône-Alpes, he says, was a "pioneer region for exports". The region runs surpluses not only with many of France's European Union partners but also with the likes of Japan, Hong Kong and South Korea.

Close to 40 per cent of exports – and nearly a third of imports were in the so-called professional equipment goods sector, which accounts for about one-fifth of the region's industry. According to the Banque de France, this strong export performance has helped compensate for domestic demand which has been subdued owing to the modest level of industrial investment and fewer orders from the automotive industry.

Among big companies strong in the region, 1996 was a poor year for Renault VI, the truck and bus division of the French car group of the same name, and Pechiney, the aluminium and packaging group traditionally associated with the Savoie. Between them, these two rattled up net losses not far short of FFr4bn.

By contrast, SGS-Thomson Microelectronics, the Franco-Italian semiconductor maker which has been an important factor in Grenoble's blossoming as a high tech centre, managed a 19 per cent advance in 1996 profits – enough to put it among the strongest performers in its industry. Meanwhile, Rhône-Poulenc, whose main activities of pharmaceuticals and chemicals are also among the region's traditional strengths, managed to improve earnings over the same period by 28 per cent.

In 1997, the region may be thankful for its relatively low exposure to France's troubled automotive sector, which is having to face up to a substantial year-on-year decline in French new car registrations following the termination of a government incentive scheme.

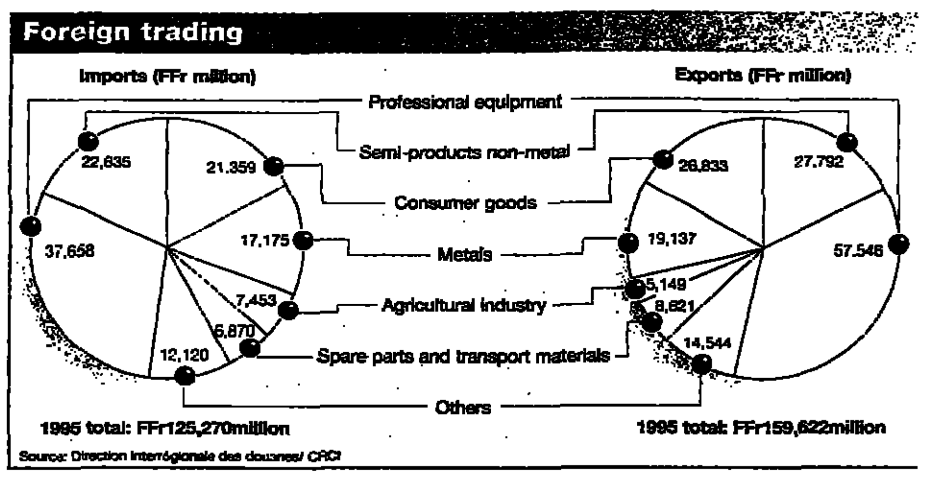
The Banque de France's Mr Subra says he is "very cautious" about this year's prospects. While he has observed an upturn in industrial production dating from September or October, he says the trend is "a very slow one – people are telling us they are making more but not much more". Furthermore, managers' predictions for jobs and investments are "relatively mediocre". Meanwhile, capacity use in the Rhône-Alpes region is running at a relatively modest 82-83 per cent.

On a brighter note, he says managers are now indicating that both stocks and order books are at levels they would consider normal. Prices appear to be stabilising as well, after 1996 when "all our information in all sectors told us prices are falling, prices are falling, prices are falling".

One further indicator could signify that a spell of more robust growth for Rhône-Alpes may be in store. Mr Philippe Marcel, managing director of Adecco, the big temporary employment agency formed from last year's merger of Adia of Switzerland and Ecco of France, says his company is placing on average 20 per cent more temporary workers in the region than a year ago.

He acknowledges this impressive growth rate is partly because companies are seeking more flexibility, but says it also reflects an improvement in the economy.

Foreign trading

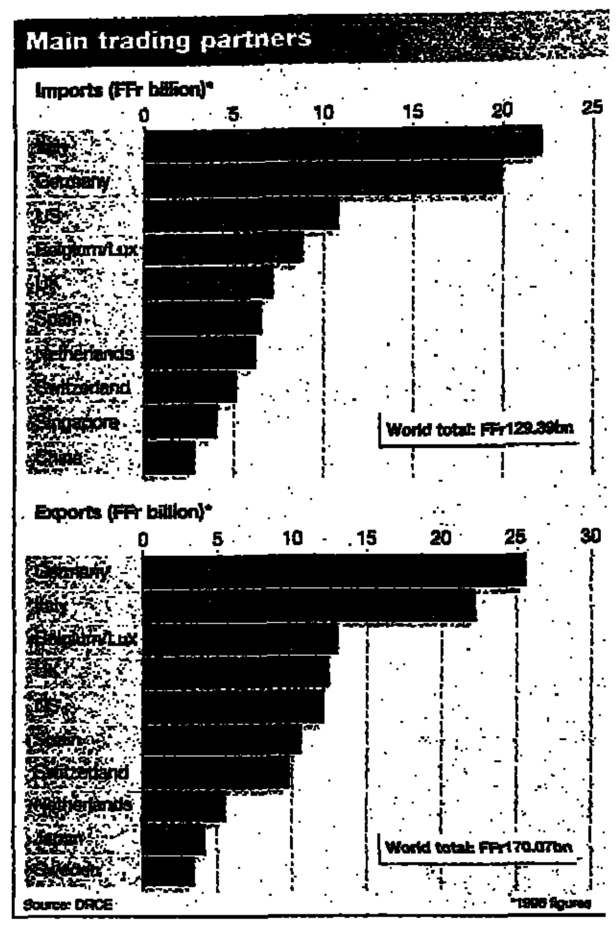


1995 total: FFr125,270million

1995 total: FFr159,622million

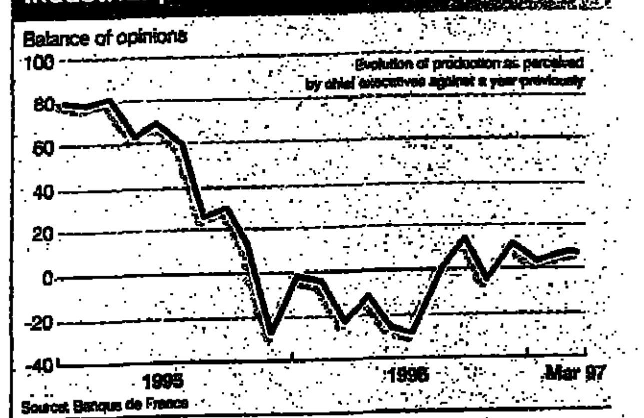
Source: Direction interrégionale des douanes/ CRCI

Main trading partners



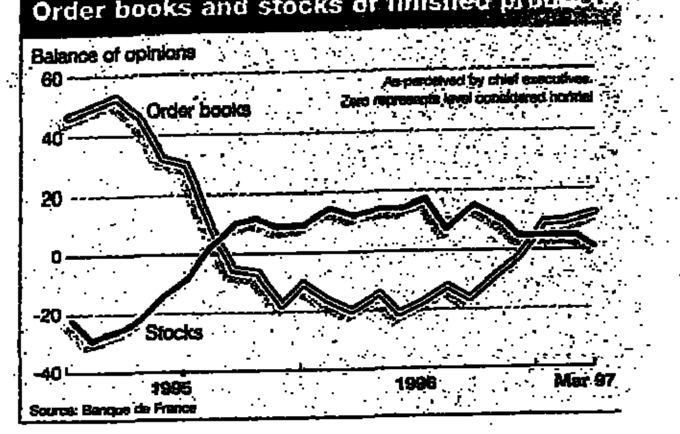
Source: DRCE *1996 figures

Industrial production

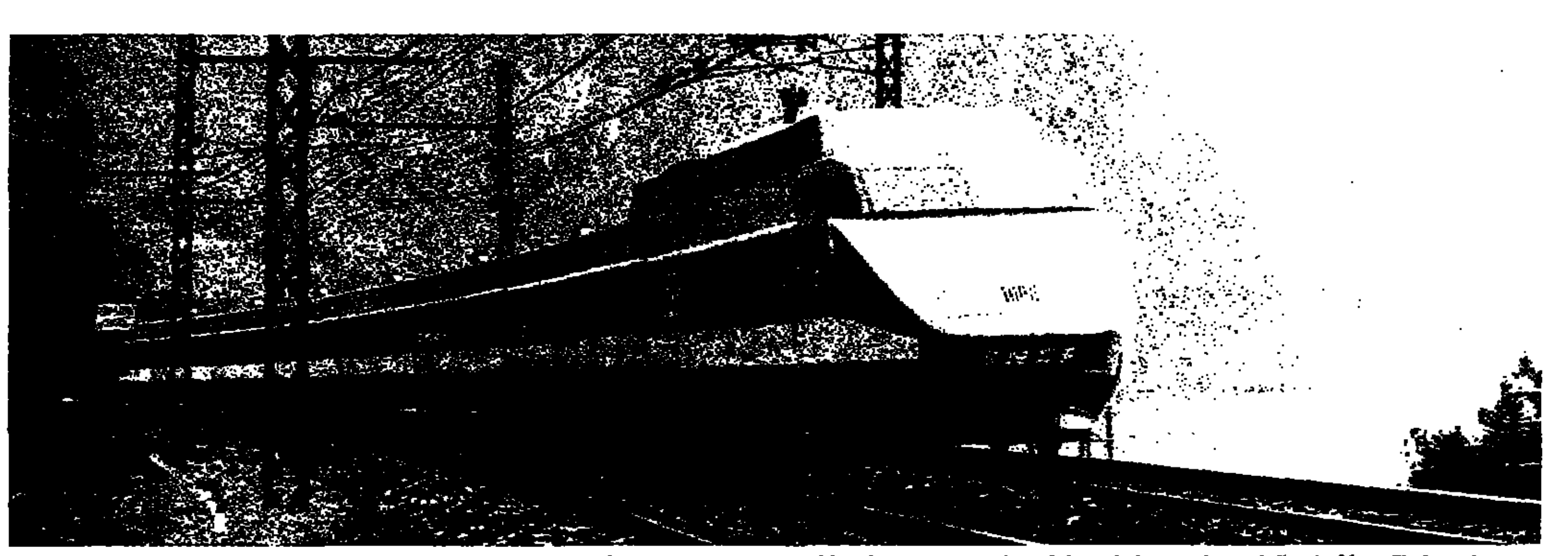


Source: Banque de France

Order books and stocks of finished products



Source: Banque de France



TGV near Aix-les-Bains en route for Grenoble: a high speed line to Barcelona is under consideration, and extension of the existing north-south line to Marseille is under way

TRANSPORT • by David Owen

Crossroads for continental trade

The Alps are the final barrier to ambitions to be the 'turntable of Europe'

A poster in a hole-in-the-wall pizzeria in Saint-Jean-de-Maurienne near the Franco-Italian border advertises a trip to Juventus's football stadium in Turin for members of a local supporters' club.

In just over three years' time, in July 2000, the journey-time for these fans – and others driving between Rhône-Alpes and northern Italy – should be considerably shortened. This is the date when the last stretch of the 63 km Autoroute de la Maurienne between Aiton and the Fréjus tunnel is scheduled to be opened.

The completion of this extremely expensive section of motorway, through an industrialised valley amid spectacular Alpine scenery, is of much more than local interest. Once finished, it will complete a continuous motorway link between northern Europe and the heel of Italy. As Mr Jean-Charles de Tissot, director of the Société Française du Tunnel Routier du Fréjus, puts it, tourists and lorry drivers will be able to journey from Denmark to Brindisi "without traffic lights".

But the Autoroute de la Maurienne may be merely a precursor to an even more ambitious proposal to breach the Alps and so revolutionise transport links between France's strongest regional economic powerhouse and one of the most dynamic areas of Italy.

The Rhône-Alpes political and business establishment are throwing their weight energetically behind a multi-billion-franc proposal to build a train à grande vitesse line, capable of ferrying passengers and freight, between Lyon and Turin.

"There has never been a high capacity, high performance pipeline across the Alps," says Mr Michel Rivoire, director general of Transalpes, a public body whose role is to promote the Lyon-Turin line. Following construction of the Channel tunnel, he sees the Alps as Europe's last great physical barrier.

There remain several hurdles to cross, both technical and financial, before the project – which would involve digging a 53-km tunnel through the mountains – gets off the ground. Regional transport experts such as Mr Alain Bonnafous, a professor at the university Lumière Lyon 2, suggests the earliest likely date for the project's completion is 2007 or 2008.

But there is no doubting the importance with which the proposal is viewed in the region. Mr Charles Millon, France's defence minister and president of the Rhône-Alpes regional council, includes the line on a list of his main future priorities. "This link will permit the Rhône-Alpes region to be the turntable for European liaisons," he says. "If it is not built, France would become, in effect, a peninsula."

Improving links with Turin is a vital part of the region's plan to cash in on the advent of the European single market by exploiting its age-old role as a crossroads for transcontinental trade. The idea is to replicate the links forged between Lyon and northern Europe, notably Paris, with a southern network of similar quality.

In the words of Mr Raymond Barre, the Lyon mayor: "For a very long time there have been relations between Lyon and the Rhône-Alpes region and central and northern Europe. That has always existed. Nevertheless, you only have to look at a map to realise that, with the enlargement of the EU, Lyon occupies a strategic position in the great European economic space and is, in particular, the junction between southern Europe and central and northern Europe."

Mr Barre says that is why he has put the accent since arriving in the mayor's office on the fact that Lyon should develop its relations with the other cities of the so-called "Alpine diamond" - Geneva and Turin – as well as with Marseille and Barcelona. "We can constitute a Latin arc from Barcelona to Marseille to Genoa with a hinterland including Lyon, Geneva and Turin," he says.

In addition to the proposed Lyon-Turin link, a TGV line to Barcelona is under consideration and extension of the existing north-south line - which currently goes as far as Valence - to Marseille is well under way. According to Mr Bonnafous, by 2010-2012, "we could have quite good continuity between Barcelona and Milan".

The completion of such a network would clearly be of immense economic significance. According to Mr Jean-Christophe Bas, Lyon-based director of Institut Aspen France, the think tank, "Once you can take the TGV from Barcelona to Turin in, say, four hours, a new European geography is imposing itself."

Mr Rivoire believes completion of the Marseille link alone will be enough to "change people's habits completely. We will be one hour and 10 minutes from the centre of Marseille," he says. "I will be able to leave home at 7.45am for my meeting at 10 and have time for a bouillabaisse in le vieux port."

Lyon's airport, 20km east of the city at Satolas, is also seen as a vital cog in the region's transport strategy.

Hard hit in the 1980s by the new TGV line to Paris – which virtually halved air passengers between Lyon and the French capital in five years – Satolas is now focusing particularly on routes on which the journey-time of any trains is at least three hours.

"When a train journey lasts less than three hours, the train is competitive to flying," says Mr Francis Latarjet, the airport's marketing director. It is also seeking to use the expanding TGV network to attract air passengers from a bigger catchment area. Such a strategy has been facilitated since 1994 by a new TGV station on the airport site.

Though some point out that the station remains, for the moment, very under-used, Mr Latarjet highlights efforts better to harmonise train and aircraft timetables. He says the notion of allowing passengers to check in for flights at train stations – and to check their luggage – is under study. He acknowledges the concept of this sort of intermodality is "a new mentality in France".

PROFILE Siparex

Strategic defence against raider

For a company which was founded to help introduce a dose of market-based capitalism into the financing of French business, the venture capital group Siparex has some peculiar characteristics.

It is partly quoted on the French second market, takes equity stakes and boardroom seats in the businesses which it chooses to support, and often uses the stock market as an exit route for its investments.

But it has shielded its own management behind one of the more obscure forms of Gallic corporate structure, the *commandite*, which gives control to designated managers protected from the power of the shareholders who hold stakes in its quoted subsidiary.

While the *commandite* is accountable in some ways to outside shareholders, many of them are in turn operated in similar ways: Michelin has a *commandite* structure, and others, such as the regional mutualist banks the Caisse d'Epargne and Crédit Agricole, and the state-owned Caisse des Dépôts et Consignations, are not quoted at all.

Mr Dominique Nouvellet, Siparex's chairman, argues that although such an approach would seem strange for an industrial group, "for a venture capitalist it is not shocking. It gives us a stability which corresponds well with our role. It's a partnership – a structure which is also common for our counterparts in the US and Asia."

In the 20 years of its existence, the Lyon-based company has expanded rapidly, opening three regional offices around France, and establishing support offices in the US, as well as providing technical assistance in eastern Europe and North Africa.

With FFr600m invested in companies in the past three years, it also claims to have the largest growth rate in capital development in the country, outstripping rival French and foreign institutions alike.

But one of the most notable events of the past few months was a threat from the stock market, from which Siparex's special structure did not render it immune. Mr Guy Wyser-Pratte, the US-based but French-born arbitragist began to take a closer look at the country of his birth last year, and bought significant stakes in several companies, including Siparex.

In a matter of weeks, with his French partners Verneuil Finance, he built up a stake of nearly 12 per cent, making him the single largest shareholder and the second most important wielder of votes after Siparex Associés, which co-ordinates the group.

His objective was to exploit the substantial discount to net asset value of the group common to most French holding or investment companies – in excess of 40 per cent – and push for a share buy-back or other techniques to improve shareholder value.

Mr Nouvellet argues that his action was less threatening to Siparex than other French companies which Mr Wyser-Pratte had raided. "Their action went in the direction that we were considering anyway," he says. "There was a convergence of views."

> The objective was to exploit the company's substantial discount to net asset value

The result was a rapid increase in the group's share price as Wyser-Pratte bought from other investors, and a deal by which Siparex agrees to buy his shares at FFr127 each until the end of May, and have pre-emption rights until the end of the year.

It also helped push Siparex into announcing plans to buy back some of its own shares – in an operation due to take place in June – which should enhance the value of those shares that remain still further.

The operation will help reduce the size of the group's treasury, at a time when lower interest rates make it less attractive to retain spare cash, and will remove the cash pile which could have proved a source of temptation for other arbitragists in the future.

Mr Nouvellet stresses that Siparex has always been at the forefront of corporate governance, and had already introduced measures such as an enhanced dividend for longer-term investors present for at least two years, to reward fidelity.

But the management of the company will no doubt also be relieved that they can turn their attention back to their business of investing in others, rather than defending their own strategy in the face of those who invest in them.

Since Siparex was launched in 1977, at a time when Mr Nouvellet says France was "not very capitalistic" and companies were financed by a policy of "total indebtedness", the situation has changed.

Some participants – such as the subsidiaries of the state-owned French bank Crédit Lyonnais – have disappeared, and other venture capitalists with banking parents have suffered from a perception of conflict of interest, leading to the emergence of more independent houses such as Siparex.

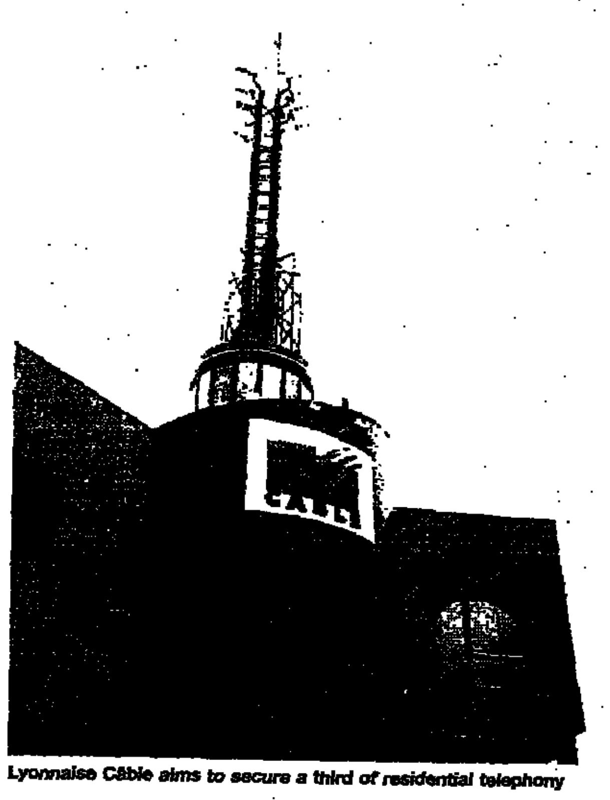
The group's own approach to investment has changed too. The value of its equity stakes in businesses and the absolute proportion of the total capital it takes has risen – to 30-40 per cent through syndicates. The length of time before it seeks to exit has also fallen.

In a change from the past, reflecting what Mr Nouvellet calls a less monarchical approach by the chairmen of small businesses, Siparex's executives also often now sit on the boards of their target companies to provide advice.

He says that the real challenge for Siparex today is to raise sufficient money, given the dearth of financial institutions and the absence of pension funds in France. Hence a recent two-week trip to the US.

But fortunately for Siparex, he argues that many UK institutions are increasingly seeking investment opportunities outside their own country, where he claims prices are high and the market is near to saturation. And France is a prime candidate.

Andrew Jack



Lyonnaise Câble aims to secure a third of residential telephony

Reptilian spin-off

As spin-offs from France's extensive nuclear industry go, it wants nothing for imagination.

In a 4,200 sq m greenhouse, near the Tricastin nuclear site on the southern edge of the Rhône-Alpes region, lurks what its owner says is by far the largest concentration of Nile crocodiles in Europe today.

Well over 300 of these extraordinary reptiles bask away their days in the Drôme sunshine, a source of fascination to an average 4,000 or so visitors a week and of revenues to Mr Luc Fougeirol who master-minded the project and now runs it with his brother Eric.

Constructed in 1994, the Pierrelatte crocodile farm currently generates annual turnover of some FFr8m. "It was a youthful fantasy," the Moroccan-born Mr Fougeirol says. "I have built my childhood dream here."

Mr Fougeirol's dream depends on hot water created as a by-product of uranium enrichment at the Tricastin plant. This is used to heat 42 hectares of agricultural greenhouses, 2,400 homes in the town of Pierrelatte – and the crocodile farm, whose 80cm-1.5m-deep ponds are kept at a temperature of 28C-32C. Mr Fougeirol says the farm's hot water bill is FFr200,000 a year.

He is planning soon to extend the site to incorporate a laboratory and a nursery. Some of his six-year-old charges, which all came from a South African farm, recently produced the first eggs to be laid on the site. It is possible therefore that the first French-born crocodiles may emerge before the end of the summer.

Mr Fougeirol says he has no current plans to start selling the skins of his animals, even though France imports some 200,000 such skins a year. Among other considerations, he says, it would not be profitable at current low prices of around FFr800 for a large skin. "Someone could offer me FFr20,000 for one of my big males and I would not sell," he says.

David Owen

Hot water created as a by-product at the Tricastin nuclear plant is used to heat the crocodile farm

TELECOMS • by David Owen

Annecy ready to ring the changes

Lyonnaise Câble is leading the way to full competition in telephony services

Inhabitants of Annecy, a pleasant lakeside town in the east of the Rhône-Alpes region, will soon be given a chance to be telecoms pioneers.

They will be among the first French telephone users to be able to take advantage of the forthcoming liberalisation of European telecoms markets by selecting a company other than France Telecom as their operator of choice for fixed telephony services.

The opportunity arises because of a licence granted to Lyonnaise Câble, a subsidiary of the utilities group Lyonnaise des Eaux, by the French government in December 1996. The licence allows the company to offer a full range of telecoms services in the Annecy district, enabling it to set up as a fixed telecoms operator for the town in advance of full liberalisation of the FFr117bn a year French market on January 1, 1998.

Lyonnaise is the leading cable operator in France, providing cable TV services to some 600,000 customers. It now aims to make more of this network by branching out into telecoms services. It sees telecoms, in particular, as a means of increasing the proportion of its FFr900m annual turnover earned from business customers.

"What we want to do is to make more value out of cable activities," says Ms Patricia de Suzzoni, deputy managing director telecoms for Lyonnaise Câble. "More than half the revenues of UK operators come from telephony services." According to Mr Jean-Claude Duffaud, the Annecy operation's managing director, "TV is very probably not enough to make the network profitable in France".

Ms de Suzzoni says Annecy, with its 100,000 inhabitants and 10,000 businesses, was chosen because it is "a dynamic, medium-sized town that forms part of a cluster – an area where we have several cable franchises". It is also a network whose infrastructure is owned by Lyonnaise outright. Elsewhere in France, a number of the networks the company operates are actually owned by France Telecom, with Lyonnaise, in effect, paying a rent to use the capacity.

Planning for the Annecy project is already at an advanced stage at the group's offices, with their distinctive blue tower, near the town's railway station.

A test phase, involving 200 pilot customers, will get under way in the summer. These triallists will not initially be asked to sacrifice their existing France Telecom services, but will be provided with an extra line and a second number. No line rental will be charged.

Even at this stage, Lyonnaise expects to offer customers a 20 per cent discount to the call charges levied by France Telecom. It believes the established operator's capacity to respond will be limited because it cannot offer discounts to telephone users in Annecy that do not apply elsewhere.

The full launch – when essentially all private customers in Annecy will have the option of switching to Lyonnaise as their full-time fixed telephony operator – is likely to come in September.

According to Ms de Suzzoni, Lyonnaise is aiming to secure about a third of the residential fixed telephony market and 20 per cent of the business market within five years.

After the opening of the whole French market, the company plans to offer telecoms services over a much wider geographic range. There is enough capacity installed at Annecy to cater for other regional centres such as Chambéry. In the words of Ms de Suzzoni: "In the end, we would be able to offer services throughout the Alps from our Annecy office, using Annecy equipment." "We are thinking a great deal about Chambéry and Besançon," adds Mr Duffaud.

Ms de Suzzoni says Lyonnaise has only had to upgrade its network "very marginally" to be able to offer the additional services in Annecy. The financial risk is therefore "limited". The company expects to make an overall investment over this year and next of some FFr90m, of which about half will be capital expenditure. This figure includes the cost of making the network accessible to the 40 per cent of local businesses – in industrial zones outside Annecy – which cannot currently be connected.

Bugey: the region is France's biggest consumer of electricity, but produces twice as much as it uses

ELECTRICITY • by David Owen

Working on natural assets

Geography and heavy local demand combine to create France's nuclear capital

On the banks of the Rhône river, near the eastern edge of the Massif Central, Michèle is hard at work turning steam into electricity. A few yards away, in a separate machine-room, Florence is shut down for an overhaul. Elsewhere on the 148-hectare Cruas-Meysse site in the largely rural Ardèche département, Nicole and Colette are also pounding noisily away.

Cruas is one of the main centres of the Rhône-Alpes' extensive electricity industry, generating about 5 per cent of France's more than 470bn kWh of annual output. Michèle, Florence and the others are four of the 14 massive turbine-alternator complexes located in the region's four orthodox (pressurised water) nuclear power stations at Cruas, Tricastin, St Alban and Bugey. The four Cruas machines, apparently named after the first women to venture into their respective machine-rooms, are each more than 70 metres long.

The region also contains the controversial Superphénix fast-breeder nuclear reactor at Creys-Malville, east of Lyon, and accounts for more than 40 per cent of French hydroelectric output. Based on 1995 figures, it generated around a quarter of the country's overall electricity production - a total of about 116bn kWh. Nearly 85bn kWh of this came from nuclear power stations, against 31bn kWh generated by hydroelectric installations.

Electricité de France, which has some 17,500 staff in the region, puts its turnover in Rhône-Alpes at more than FFr20bn and says its local tax bill is FFr2.65bn. The region also contains a number of important EdF research and engineering centres: the organisation's nuclear studies office, Septen, is at Lyon; its national hydroelectric equipment centre in Chambéry. "We have always thought of Lyon as the capital of the nuclear industry," says Mr Jacques Regaldo, managing director of the Cruas plant.

What explains the leading position that the region has come to occupy in this strategically important national industry? Experts such as Mr Henri Morsel, an economic history specialist at the university of Lyon 3, attribute Rhône-Alpes' pre-eminence to a combination of geography, know-how and heavy local electricity consumption.

Just as the region's early hydroelectric potential was due to the position of the Alps, so the rapid growth of the nuclear industry in the 1970s and mid-1980s would not have been possible without the Rhône – in Mr Morsel's words France's "most important, most powerful and most cooling river".

In addition to this vital natural asset, Mr Morsel points to the development, from a relatively early date, of substantial nuclear savoir faire in the Rhône-Alpes region. Finally, the area's extensive and varied industrial base meant there was a guarantee of heavy demand for power.

Rhône-Alpes is not just France's biggest regional electricity producer, but also its biggest consumer, accounting for about 15 per cent of national consumption. It nevertheless produces about twice as much as it consumes, thus helping to maintain the country's status as a substantial net exporter of electricity.

Although Superphénix has proved hugely controversial throughout France both because of its high cost and the string of technical problems that has limited its operations, industry officials appear to believe the inhabitants of the region have otherwise got used to the high concentration of nuclear plants in their area.

Mr Henri Torre, president of the Ardèche general council and a former government minister, shares this view, saying that, while there is political opposition to the nuclear industry, "locally the affair has been accepted". He points out that the nuclear industry represents between 9 and 10 per cent of Ardèche's budget and between 15 and 16 per cent of its fiscal receipts.

The industry's contribution to the regional economy appears to temper concerns about safety even in Malville, a lilac-scented rural hamlet within sight of the Superphènix complex. "True, if it was shut down, we'd feel more secure," says one female resident. "But a lot of people work there. If they stopped it, it would mean more unemployment."

If there are residual worries, meanwhile, they may be stirred by plans to give everyone living within 5 km of a nuclear power plant an iodine pill as a precautionary measure to swallow in the event of a radioactive leak. According to Mr Regaldo, pills will be distributed to those living around the Cruas plant in the autumn. He says the plant already has – and intends to keep – a stock of 200,000 pills, which is "a lot more than would be needed". "The only innovation is we are spreading them out to make distribution more effective."

REGIONAL DEVELOPMENT • by David Buchan

In a position of strength

Lyon aims to build on established industries and capitalise on transport links

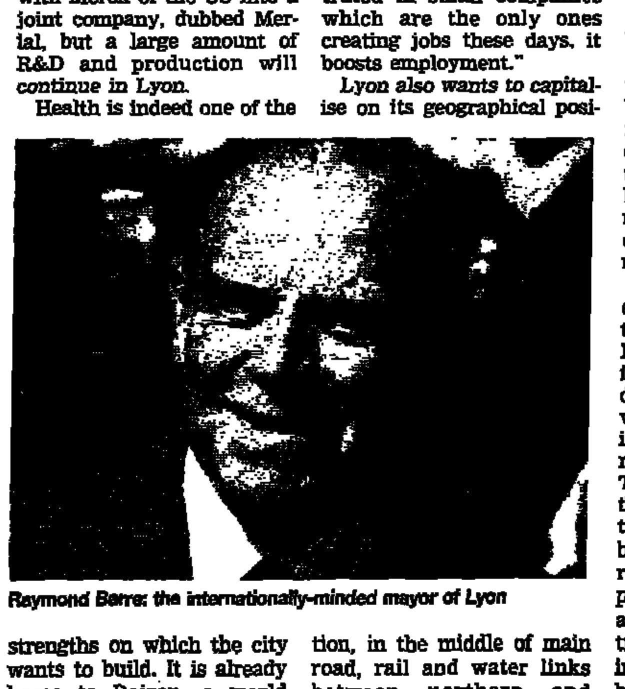
The Group of Seven summit, immaculately organised last June in the new Cité Internationale on the banks of the Rhône, has helped place Lyon more clearly on the world map. "We have the impression that foreigners, particularly those outside Europe, now have a better idea of where and what we are," says Mr Robert Maury, director of Aderly, Lyon's regional development agency.

Lyon has long been international, and now in Raymond Barre it has one of the most internationally-minded Frenchmen as its mayor. It was Italians who brought silk, and Germans printing, to Lyon, and today foreigners account for 20 per cent of total investment in the Lyon region and for 20 per cent of its employment. By nationality, the biggest investors are US and UK – each with 41 companies employing more than 50 people, Germany (29), Switzerland (19), the Netherlands and Sweden (11) and Italy (10).

But Japan is also increasing its presence. Taking over a Rhône-Poulenc polyethylene film operation, Toray, the Japanese composite materials company, has recently decided to invest FFr1bn to make Lyon its European centre for packaging materials. And while Toyota is still prospecting various parts of France for a new car plant, Lyon retains hopes that the Japanese car giant might choose a site not far from its Koyo Seiko operation in the region which makes power steering.

Very active in spinning foreign links is Institut Mérieux, the venerable vaccine-maker that started in Lyon in 1897. It is now part of Rhône-Poulenc, and with its various joint ventures it is the world's largest industrial protector of human and animal life. Pasteur-Mérieux-Connaught still produces more than half of all its vaccines in Lyon, according to Mr Guy Mahler, the head of Mérieux who is also president of the city's chamber of commerce. In animal vaccines and medicines, Mérieux is pooling its operations with Merck of the US into a joint company, dubbed Merial, but a large amount of R&D and production will continue in Lyon.

Health is indeed one of the strengths on which the city wants to build. It is already home to Boiron, a world leader in homeopathic medicines, and to production laboratories for the likes of Schering. To develop this sector, the city has set aside the Gerland technopole, or science park, in the southern part of Lyon.



Raymond Barre: the internationally-minded mayor of Lyon

Another sector in which the city wants to specialise more is environmental, anti-pollution and waste treatment technology – and to this end the Portes des Alpes technopole has been created. There is also significant interest in developing the chemical industry and general subcontracting.

Lyon already accounts for 25 per cent of all subcontracting in France, partly thanks to the way its silk industry spawned both the making of machines and of colour dyes for textiles which then led into the broader field of chemicals. "Subcontracting is very important for two reasons," says Mr Mahler. "Because it is so diversified, it gives stability to the local economy, and because it is concentrated in small companies which are the only ones creating jobs these days, it boosts employment."

Lyon also wants to capitalise on its geographical position, in the middle of main road, rail and water links between northern and southern Europe, to take part in the revolution in logistics. Spurred on by the removal of customs checks within Europe, this revolution takes the form of manufacturers choosing to distribute their goods from a single point - as IKEA, the Scandinavian furnishing company, is now doing from Lyon for all of southern Europe - or to hand over storage, packaging and distribution to logistics specialists.

Lyon has the advantage over other towns – particularly those to the north such as Macon, Chalons and Dijon – because it has, as Mr Maury points out, "a very large number of users of logistics on the spot". It also has very good TGV rail links to the north and soon to Marseille. But transport problems in and around the city itself, have become a political football.

One of Lyon's post-war mayors, Louis Pradel, made a historic mistake in insisting that the main road south from Paris, the A6, should run right through the city. The past few years have been spent in trying to build a ring-road to take through traffic around the city. Under Michel Noir, elected mayor in 1989 and disgraced on corruption charges since, the project was launched, but only the eastern and northern sections have been completed. There is still a missing link to the west.

Most Lyon politicians, except those to the west of the city, seem agreed on the longterm wisdom of completing the ring road. But they differ sharply on how to provide better public transport inside the city and therefore reduce the need for cars. This division largely follows the fracture of the city's centre-right establishment between its Noirist and Barrist factions. The latter has proposed putting all available money into building tramways, while the former insists that the metro should be further extended. Mr Henri Chabert, a Noirist deputy mayor, says: "Let's finish the metro and then see if we need the tramways."

What makes this more than an urban planning dispute is the current election campaign, in which two Noirists – Mr Chabert and Mrs Marie-Chantal Desbazeille – are fighting the official candidates of their Gaullist party for two of the city's parliamentary seats. Mr Chabert, who got 27 per cent of the vote against 30 per cent for Mr Barre in the 1995 municipal election first round, would use victory as a launching pad for the 2001 mayoral election.

WINTER SPORTS • by David Owen

An uphill struggle for ski makers

There is no growth and market fragmentation is imposing heavy development costs

There can be few sectors in which the Rhône-Alpes region has such a dominant world position as winter sports.

Flanked down its eastern side by the Alps, it has three times hosted the winter Olympic Games: at Chamonix in 1924, Grenoble in 1968 and Albertville in 1992. It boasts a long list of blue ribbon ski resorts, ranging from Val d'Isère to Tignes, Courchevel to La Plagne. And it contains the headquarters of many of the world's leading winter sports equipment manufacturers including Skis Rossignol, the world's biggest alpine ski maker, Salomon, the largest maker of ski bindings and Pomagalski, the cable transport specialist.

According to Mr Jean-Jacques Bompard, general secretary of Skis Rossignol, companies responsible for more than 50 per cent of the FFr10bn a year global wholesale market for winter sports goods have headquarters in Rhône-Alpes. The region accounted for almost three-quarters of the FFr4.32bn turnover generated by French ski lifts in 1995-96.

Sitting in his office in the pretty market town of Voiron (population 20,000), which is also home to Chartreuse, the famous green liqueur, Mr Bompard says he estimates Rossignol's world market share at 26 per cent. As well as 1.4m pairs of skis – many of which are made at a plant in tiny Saint Etienne de Crossey (population about 1,500) some 7km up the road – the company manufactures a wide range of winter sports goods including bindings, skis, poles and snowboards. He says the group's objective is to lift its market share to 30 per cent.

Mr Bompard explains that the company thought the best use of its resources in recent years was to "develop our winter sports offer to have the most complete range available". Nonetheless, the group is also present in certain summer sports markets such as golf – where it claims to be the world leader for wedges – tennis and now roller skates.

If the 1996-97 season started off promisingly with heavy early snowfalls, climatic conditions turned against the industry in February and March when the weather was exceptionally fine. According to Mr Bompard, this inopportune patch of good weather cancelled out much of the early growth. He nevertheless describes the season, on balance, as "relatively favourable".

Mr Vincent Rain, director general of the Rhône-Alpes Tourist Board, thinks the number of visits to the region's pistes in 1996-97 will turn out to be up by between 0.5 and 1 per cent from 1995-96 which, he says, was already a good year.

Some believe ski lift turnover will be lower than last season, however. Mr Christian Dybich, an industry specialist with the Lyon Figaro newspaper, says turnover will probably be down by between 2 and 3 per cent.

Even discounting the vagaries of the weather, the winter sports sector is a difficult business to be in at present, as Mr Bompard acknowledges. For one thing, taken as a whole, he argues, it is a market without growth. In Japan, he says, an accumulation of stocks has contributed to a "very unfavourable" situation.

For another, an unprecedented fragmentation of the market – with enthusiasts experimenting with new gear, such as snowboards and parabolic skis, in pursuit of what the marketing men call "new sliding pleasures" – is imposing heavy product development costs on leading manufacturers.

It is not surprising then that 1996-97 is shaping up to be less than a banner year in terms of financial results for the main equipment makers. Rossignol warned in December that its results for the year to end-March 1997 would come in below the FFr115.7m reported last time.

The warning came as it unveiled a near 14 per cent drop in first-half net profits from FFr148.5m to FFr129m.

Salomon indicated at about the same period that it expected its 1996-97 results, excluding exceptional items, to be similar to last year's FFr207m. First-half sales at the group registered a strong 18 per cent increase from FFr1.71bn in the six months to end-September 1995 to FFr2.02bn this time.

'New sliding pleasures' such as snowboarding impose heavy development costs on manufacturers

RESTAURANTS • by Andrew Jack

Expensive tastes

Despite high culinary values, restaurants have been suffering financially

If France is the gastronomic centre of the world, then Rhône-Alpes is its capital. And, judging by some of the objects that hang on the walls of his restaurant just outside Lyon, Paul Bocuse is its self-appointed prophet.

The eye-searingly pink building on Saone riverfront at Collonges-au-Mont-d'Or – named simply "Paul Bocuse" – contains not only dining rooms, but a gift shop with ties, postcards, videos, cookery books and other merchandise.

Photographs of assorted famous clients adorn the walls, and the pièce de la resistance, hanging outside the toilets, is a huge oil painting inspired by "The Last Supper", with a large table endowed with food, 12 adoring sous-chefs around it, and Bocuse himself as Christ at the centre.

Bocuse may not win any prizes for his modesty, but he does muster considerable respect from his peers, with his ratings including a long-standing three Michelin stars for those willing to pay the price.

Yet he is far from a lone talent in the region. Non-gastronomic reasons may explain why the G7 heads of government meeting in June last year took place in Lyon – including the influence of Mr Raymond Barre, the former prime minister and mayor of the city, and the symbolic gesture of President Jacques Chirac meeting his guests outside Paris. But the assorted heads of state were certainly able to gain a positive impression of the city with a copious "working dinner" prepared by five of the region's best-known chefs, Bocuse included, washed down with regional wines.

It should be no surprise that there is a photograph of the event adorning Paul Bocuse's wall, complete with President Bill Clinton grinning contentedly.

Away from such elaborate and expensive cuisine, and the notoriety of prestigious food guides, Lyon has much to offer to those on more modest budgets, notably in its "bouchons" or traditional restaurants serving solid, typical food.

The city and the surrounding region has long held a strong reputation for culinary excellence at all levels. For Mr Guy Lassausaie, the fourth generation of his family to run a restaurant in the village of Chasselay, which now sports two Michelin stars, the reason has much to do with geography

"This is a region which is very rich in produce," says Mr Lassausaie, who is also head of "Les Toques Blanches", a local association of chefs. "You have the wine of Beaujolais and Bourgogne to the north, the Rhône to the south, poultry in the east and the lakes and cheeses of Savoie. Lyon is at the centre."

He adds that there has also long been a tradition of "Lyonnaise mothers" preparing good meals at home, developing a taste for high quality food among the clients of local restaurants – not to mention animated discussions about ingredients and preparations between chefs and their customers.

But despite the healthy appetite, the financial predicament of many restaurants in Rhône-Alpes has been less happy recently. In the past few months there have been some unprecedented disasters which grabbed national newspaper headlines.

In April this year, La Mère Vittet, a brasserie in Lyon founded in 1950, which had no Michelin stars but a very high local reputation, was placed into court administration after collapsing under heavy debts.

Last September, Mr Marc Veyrat, the owner of the three-star Auberge de L'Eridan at Veyrier-du-Lac near Annecy, renowned for his weekly treks into the mountains to gather local herbs for his kitchen, warned that he was likely to close his restaurant because of crippling interest charges.

After several weeks of negotiations, and a great deal of press coverage, he managed to reach an agreement to restructure the FFr45m in loans from his bankers.

At the start of last year, Mr Pierre Gagnaire, in charge of another highly-regarded three-star restaurant in Saint Etienne, was less lucky. He filed for bankruptcy after blaming a drop in clients.

Nearly 200 cafés and restaurants in the Lyon region closed during 1996, according to the local trade association, and the situation is due to get worse this year. It blamed the crisis among other factors on rising social security costs and VAT.

A recent study by the consultancy group Coach Omnium argues that nationally the sector has suffered from a reduction in both clients and the average amount they spend, in the wake of the economic downturn which has affected families' eating budgets and forced a clamp-down on expenses by companies.

Others argue that the difficulties of some of the better-known chefs were at least as much to do with excessive investment – notably in elaborate decoration and hotel rooms alongside their restaurants – in the early 1990s, when interest rates were high and the property market was poised to slump.

Financial institutions have become more reluctant to lend to restaurants, with the two leading specialists – UIC and Banque Monod – both withdrawing from the activity after incurring heavy losses.

"Service is very important," says Mr Lassausaie. "The decor has to be good, but you don't need all the toilets to be in marble. And you have to find the right balance. The chef must have a free range, but you need to have management too."

Mr Gagnaire says: "When you see the scandals that went on elsewhere in the property sector, it makes me laugh. At least we are producing beautiful work. We deserve a bit of compassion."

ARTS

Cannes' troubled quest for a winner

Art was not in the same class as showbiz at this year's festival, reports **Nigel Andrews**

The deliberations at the 50th Cannes Film Festival must have kept every fly on each jury-room wall on tenterhooks. Instead of 12 angry men, three perplexed women and seven flummoxed men tried to find a rightful Golden Palm winner in a festival almost *everyone* agreed did not have one.

The guerdon was finally torn in two and shared between two outside challengers, Japan's *amiably eccentric tale of an* ex-convict seeking redemption, *The Eel* (reviewed here last week) and Iran's *The Taste Of Cherries*.

Like *Through The Olive Trees*, the film that first won its director Abbas Kiarostami admirers in Cannes, this is a ramble through the country's psychic hinterland. A man contemplating suicide drives in long dusty loops along a *mountain road*, picking up a succession of last companions in whom to confide his dreams, despairs and plans for a painless death.

Fine set pieces – the thunderous concerto of an earth-moving sequence, a *rainstorm at night – are strung* on a flimsy narrative line and the film all but falls apart at the end. At least, though, recognition has been given to a new voice from a relatively new cinematic country, one whose government was reluctant initially to send so dark-hued a film to Cannes at all.

The performance prizes were even more startling: to no one more so than Best Actress winner Kathy Burke, whose battered wife in Gary Oldman's *Nil By Mouth* was a vivid short-distance character sketch in a festival boasting more sustained acting feats (notably Suzanne Lothar in *Funny Games*). Sean Penn in *She's So Lovely* won Best Actor, for what must be reckoned a triumph of histrionic resourcefulness in an *impossibly silly role*.

Elsewhere, much of Cannes '97 was like a bad cocktail hour on an aeroplane. One sits back hoping to be spoiled; instead the champagne is *flat and one* cannot open the peanuts' packet.

Movies that were not dull were impenetrable. Could anyone make sense – did anyone want to – of the identity games in Jonathan Nossiter's *Sunday*, with David Suchet and Lisa *Harrow lost in existential* New York? Or of the winsomely cryptic epigrams of Godard's *Histoire du Cinema Part 2*? (I missed part one during a fortuitous time-warp). Or of *The Serpent's Kiss*, an allegorical costume piece directed with scant visual grace by cameraman Philippe Rousselot, in which Greta Scacchi, Ewan McGregor *and others trade epigrams in an* archly symbolic garden. It is like *Blackadder* without the jokes.

Typical of the *festival's* troubled quest for a winner was that even the film exciting the most animated response found as many foes as friends. Michael Haneke's *Funny Games*, with its holidaying *family of three tortured by a* psychopathic band of two, left me and many colleagues racked by terror and pity, Aristotle's prerequisites for tragedy. Other critics, though, inveighed against "gratuitous sadism" or even spoke of Nazism, gas chambers and the director's sick mind.

Perhaps they were happier *with the underwhelming cinema* that preceded and followed Herr Haneke. Mathieu Kassovitz's *Assassin(s)* is a major disappointment after his *La Haine, which won the 1995* Cannes Best Director prize. Kassovitz and Michel Serrault play a young hired killer and mentor, blearily pumping bullets into victims while talking of death, destiny and the meaning of life. It is like *Waiting For Godot rewritten* by Mario Puzo, though even that sounds as if it might be more interesting.

Anticipation was high for Nick Cassavetes' *She's So Lovely*, made from an unrealised script by his late father John, and for Wong Kar-Wai's *Happy Together*, another visual firework display (we hoped) from the maker of *Chungking Express*.

Hope on. The Cassavetes film was a bewildering shambles, with Sean Penn as a touched-in-the-head hellraiser who loves Robin Wright, leaves *her for an eight-year prison spell* and then tries reclaiming her from bossy, chauvinist husband John Travolta. The makers trumpeted that this was that rarity, a well-shaped, three-act Cassavetes script. But the whole point of Cassavetes, surely, is his *unshapeliness. He deals with* ragged and raging lives in a ragged and raging world. Putting him in three acts is like trying to rewrite Allen Ginsbergh in sonnet form.

Happy Together has one choice moment of shock value. Two top Chinese male stars, Tony Leung (of *Chungking Express*) and Leslie Cheung (Farewell *My Concubine*), are seen making love to each other in the first five minutes. After that jaw-dropper, this plotless gay fable drifts about Buenos Aires for 90 minutes, changing colour filters and soundtrack songs even while *it goes nowhere*.

With guilty relief we festivalgoers ended up watching Clint Eastwood's *Absolute Power*, the non-competitive *film de clôture* about a jewel thief, a president and a murder (opening in Britain next week). The glossily crafted thriller made us realise that in some years art is not in the same class as showbiz.

Perhaps art will creep back into the festival again next year. *After the remorseless PR* dazzlements of the Golden Jubilee brouhaha, we would all welcome a little less sound and fury, a little more sense and substance.

Prizes which only flatter to deceive

Since I seem to spend half my time judging competitions or awarding prizes, it would ill become me to carp at either their proliferation or their generosity. I am all *for* artists being recognised by the excellence of their work, and if a *prize helps them* on their way, good luck to them. And how generous is generous? Even the NatWest Prize which, at £26,000 bills itself as the most valuable such prize in Britain, amounts to barely a modest salary.

In the prizes with which I have been associated, such as the John Moores and the Hunting, the winner emerges by direct comparison with its rivals in the rough-and-tumble of selection. The process is, in principle, anonymous, even though artists' work will always be immediately recognisable.

Now a different type of competition has become established, no less worthy of intention but more publicity conscious. First comes the announcement of the jury, then the private deliberations, the mulling over of slides sent in, the studio visits. Then The Short List is announced, followed by the exhibition of the lucky artists' work and at last the Prizegiving itself. The Turner, the Jerwood and the NatWest Prizes all *conform to this pattern*.

The only trouble is that with the field all but preselected, the emphasis is switched from the work itself and its particular merit against the competition, to *the artists, the chosen few. The* natural tendency in its selection is to be fair, balanced, critically correct, rather than purely responsive to what has been sent in: unwittingly or not, a kind of politics inevitably creeps in.

Age limits only make it worse. The Turner is limited to artists under 50, *which is bad enough*. The NatWest's limit is 35, which is at once to encourage the young, as though they need encouragement; to condescend to them, as though they need special treatment; and to perpetuate the myth that there is something special in what they do.

The NatWest Art Prize is for painting. Last year it was carried *off by women and by figurative* work. This year the balance has shifted the other way, so far as the sexes are concerned. As for the work, it falls fairly equally between the abstract and the nominally figurative, though there is nothing this time that is worked objectively from the figure, landscape or still-life. There is no description as such, no *analysis, no careful, disinterested* study, but only response. Overall, we run the gamut of recent art school *preoccupation* – clever, knowing, selfconscious in its strategies and attitudes, no surprises, *no risks*.

The sense repeatedly is of a single simple formal idea adopted and worked to death. Melanie Comber raises blobs of pigment proud of a monochrome surface which are then modified by a spray or dusting of a related tone or colour. "I am exploring the possibilities of the materials I have chosen", she tells us. Mark *Francis continues where he has* never left off, setting out a gridlike structure of sperm-like shapes which he gives a lateral or vertical nudge by lightly brushing across them while the paint is wet. They "imply earlier beginnings."

Jeff Gibbons's large still-life ideographs present simple objects that are, he hopes, "in a kind of *human discussion.*" *Mark* Hammond takes a wide brush and, in a gestural flurry, disrupts a thinly laid-on ground. He is working, he claims, "in the gap between the pictorial image and the paint itself."

Time and again the work is superficial even at the practical level, loose and perfunctory, with but rarely any sense of the artist *unselfconsciously absorbed in the* making of the work, wondering where it will lead, what it will be. Rather, the statement of the idea, the principle, was enough. Even the winner, Max Mosscrop, with his tricks of minimalist perspectives and spatial allusions, flatters to deceive, the work not quite as immaculate in the execution as it might seem.

Only at either extreme do we find the honourable exceptions, Jason Martin with his rich monochrome *canvases that really do* register the physical rhythms of painting, and Judy Buxton with her dense, intuitively expressionist table-top still-lifes. It would be nice to be more encouraging, for the NatWest initiative is not in itself misplaced, and the opening out of its splendid central hall at 41 Lothbury for use as gallery, giving the City an extra exhibition *space of which it has few* enough, is a matter for unqualified congratulation.

William Packer

The NatWest Art Prize, the Lothbury Gallery, 41 Lothbury EC2, until June 13: sponsored by the NatWest Group.

Max Mosscrop, winner of the 1997 NatWest Art Prize

Alastair Muir

Ample voice with natural pathos, but dressed like a chamber-maid with little erotic flair: Adina Nitescu in 'Manon Lescaut'

Destructive love treated lightly

Andrew Clark reviews Glyndebourne's opening production

Why bother with Puccini at Glyndebourne? Before Sunday's season-opening performance of *Manon Lescaut*, the question had always been rhetorical. Apart from a solitary *Bohème* in the 1960s, Puccini was considered too common for the Sussex Downs. How times change. Since the advent of the new theatre, Glyndebourne has *become less snobbish, and the* repertoire more adventurous.

Manon Lescaut, not staged in the UK since 1962, must have seemed a good investment: in its natural capacity to please, it reveals a less calculating Puccini than the better-known operas of his maturity. Sadly, the investment backfires. This staging, conducted by John Eliot Gardiner *and directed* by Graham Vick, demonstrates how out-of-touch Glyndebourne is with Puccini's aesthetic.

In the right repertoire – *Carmen*, perhaps? – Gardiner and Vick would make happy bedfellows. *Manon Lescaut*, however, finds them both terrified of anything that might suggest schmaltz or sentiment. And so they run in the opposite direction. Gardiner conducts Puccini as he would Chabrier. Vick treats Prévost's tale of destructive love with all the seriousness of operetta. The result is pretty, superficial, devoid of feeling. And if Puccini has no feeling, why bother in the first place?

In his Glyndebourne debut, Gardiner suggests that, outside *his well-known repertoire* strengths, he is not such a stylist after all. True, he infuses Puccini's melodies with the fizz of champagne, and reveals unexpected vistas of instrumental colour. The orchestral responses are characteristically well-drilled, *à point*. But the emphasis is all on brilliance. However interesting Gardiner makes the music sound, *it never touches the heart*; the whole reading is too obviously constructed. A glaring example is the *Act 3 Intermezzo*, which Gardiner unfolds as a succession of lumpy blocks, with no sense of line or portamento. Even the big choral phrases sound resolutely un-Italianate.

Vick and his designer, Richard Hudson, are equally determined *to sanitise Puccini. Hudson sets* the tone with a spotless stage-frame in apricot and yellow. Within it we find characters who, in their neat choral groupings and meticulous 18th century wigs, are more dolls than creatures of passion. Vick treats Manon's Parisian boudoir as a comic-ironic set for preening fops and dirty old men, while Act *3 erupts in farce, as melodra*matic quotes from Prévost flash up in silence on the supertitle screen.

There *are* subtle touches, such as the mirror overhanging Manon's bed in Act 2, and the hint of incest in her relationship with Lescaut. But Vick has no more *grasp of Puccini's sensuousness* than Gardiner. The staging is all window-dressing – neither true realism nor abstract symbolism – and there is a strong sense of *déjà-vu* from previous Vick-Hudson productions.

As with Lulu last summer, Vick sees Manon as a passive victim, buffeted to her destiny by the desires and machinations of *others. While this interpretation* suits the personality of Adina Nitescu, the young Romanian in the title role, it has nothing to do with Puccini's pleasure-loving heroine. Nitescu has an ample, colourful voice, which she wields with natural pathos. But she is dressed like a chamber-maid, and has as much erotic flair as a wax model.

*Glyndebourne's casting depart*ment enjoys better luck with Des Grieux: the American tenor Patrick Denniston has impressionable good looks and a strain-free voice. It does not project well – he could learn something there from Antonello Palombi's Edmondo – and the timbre is hardly melting, but at least he is musical. Paolo Montarsolo, who *first sang at Glyndebourne 40* years ago, turns Geronte into a geriatric sugar-daddy; Roberto de *Candia is the suitably* unscrupulous Lescaut. They all deserve a less non-committal production. Puccini is still, after all, a dirty word at Glyndebourne.

Sponsored by SBC Warburg.

INTERNATIONAL ARTS GUIDE

■ BERGAMO

CONCERT
Teatro Donizetti Tel: 39-35 399 320
● Christian *Zacharias: the pianist* performs work by Schubert; May 22

■ BERLIN

CONCERT
Konzerthaus Berlin Tel: 49-30-203090
● Akademie für Alte Musik Berlin: with flautist Marion Verbruggen and trumpet player Friedemann Immer in works by Bach; May 23, 24

OPERA
Staatsoper Unter den Linden Tel: 49-30-20354438
● Die Zauberflöte: by Mozart. Conducted by Christoph Ulrich Meier; May 21, 24

■ CAMBRIDGE

EXHIBITION
Fitzwilliam Museum Tel: 44-1223-332900
● Shakespeare and the Eighteenth Century: exhibition examining interpretations of Shakespeare by visual artists in the 18th century. On display are drawings and prints by artists including Romney, Blake and Barry alongside portraits of actors, authors and composers *associated with the playwright's* work; to Jun 29

■ COPENHAGEN

OPERA
Det Kongelige Teater – The Royal Theatre Tel: 45-33 69 69 69
● Arabella: by R. Strauss. Conducted by Dietfried Bernet, *performed* by the Royal Danish Opera. Soloists include Elsebeth Lund, Stephen Milling and Irma Mellergaard; May 22

■ DUBLIN

CONCERT
National Concert Hall *Tel:* 353-1-6711888
● Irish Chamber Orchestra: with conductor Nicholas Kraemer and soprano Suzanne Murphy in works by Elgar, Britten, Johnston and Strauss; May 23

■ LONDON

CONCERT
Wigmore Hall Tel: 44-171-9352141
● *Nikolai Demidenko: the pianist* performs works by Mendelssohn, Schubert, Liszt, Chopin, Beethoven and Schumann; May 22

EXHIBITION
Serpentine Gallery Tel: *44-171-4026075*
● Anya Gallaccio: installation on the Gallery's lawn by the sculptor who uses raw materials including blocks of ice; from May 21 to Jun 22

FESTIVAL
The Place Theatre Tel: 44-171-387 0161
● The Turning World Festival *1997: now in its seventh year*, the festival includes performances by the Helsinki City Theatre Dance *Company (making their British* debut), Alias Compagnie from Geneva, Les Ballets C de la B from Ghent and the American David Rousseve. The opening performance is by S.O.A.P. Dance Theatre Frankfurt, performing *Khôra* choreographed by Rui *Horta to taped percussion music*; from May 20 to Jun 10

■ LYON

OPERA
Opéra National de Lyon Tel: 33-4-72 00 45 00
● *L'Osteria di Marechiaro*: by Paisiello. Conducted by Claire Gibault, performed by the Orchestre and Atelier Lyrique de l'Opéra de Lyon. Soloists include *Laurent Alvaro, Alketa Cela*, Scott Emerson and Marie-Belle Sandis; May 21, 23

■ MUNICH

DANCE
Prinzregententheater Tel: *49-89-4706270*
● Ein Traumspiel: choreographed by Davide Bombana to music by Axel-Frank Singer, performed by *the Bayerisches Staatsballett; to* Jun 21

■ NEW YORK

DANCE
New York State Theater Tel: 1-212-875-5570
● La Stravaganza: choreographed by Angelin Preljocaj to music by Vivaldi, Dixit, *Ficarra, Normandeau, Morand and* Parmerud, performed by the New York City Ballet; May 22

EXHIBITION
Guggenheim Museum SoHo Tel: *1-212-423-3840*
● Art/Fashion: exhibition examining the exchanges between visual art and fashion design through a selection of *sketches, watercolours, sculptural* works, garments, photographs and installations. Works by artists including Christo, Warhol and Shea will be on display alongside garments designed by Cocteau, Dali and Balla; to Jun 8
The Metropolitan Museum of Art *Tel: 1-212-879-5500*
● The Glory of Byzantium: major exhibition of the art of the middle period of the Byzantine Empire (from the mid-9th through to the *mid-13th centuries), when* Byzantium set a standard of imperial elegance for both contemporary Western Europe and the Islamic east; to Jul 6

THEATRE
Roundabout Theatre Tel: *1-212-575-3030*
● London Assurance: by Boucicault. Directed by Joe Dowling. The cast includes Brian *Bedford and Kathryn Meisle; to* Jun 29

■ OXFORD

EXHIBITION
Ashmolean Museum of Art & Archeology Tel: 44-1865- 278000
● Life Drawings: selection from the Museum's collection examining studies of the human *body since the early 16th century*. Artists with work on display include Michaelangelo, Raphael, *Rubens, Pissarro and Cézanne; to* May 31

■ PARIS

CONCERT
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● Philadelphia Orchestra: with conductor Wolfgang Sawallisch inworks by Schumann, Brahms and *Dvorák*; May 22

EXHIBITION
Musée Picasso Tel: 33-1 42 71 70 84
● *Picasso, Les Sources* Photographiques: 1900-1928: the third of a cycle of exhibitions illustrating the influence of photography on Picasso's work, *covering the painter's Cubist and* Surrealist periods. A number of paintings and graphic works are on display, including "La Famille Soler"(1903) and "La Baigneuse au Ballon"(1929); to Jun 9

OPERA
L'Opéra de Paris Bastille Tel: 33-1 44 73 13 99
● Lohengrin: by Wagner. Conducted by James Conlon, *performed by the Orchestre et* Choeurs de l'Opéra National de Paris. Soloists include Kristinn Sigmundsson, Thomas Moser and Eva Johansson; May 21, 24
Théâtre National de l'Opéra – Opéra Garnier Tel: 33-1 42 66 50 22
● La Clemenza di Tito: by Mozart. Conducted by Armin Jordan, performed by the *Orchestre et Choeurs de l'Opéra* National de Paris. Soloists include Rainer Trost, Cynthia Lawrence *and Christiane Schäfer; May 22*

■ STOCKHOLM

DANCE
Kungliga Teatern - Royal Swedish Opera House Tel: 46-8-7914300
● *Mayerling: choreographed by* Kenneth MacMillan to music by Liszt, performed by the Royal Swedish Ballet; May 21,22,23, 24

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Forrás Chamber Music Ensemble: with clarinet-player Gergely Vadja, cellist Tamás Varga and pianist Béla Simon in works by Bartók, Thinany and Brahms; May 21

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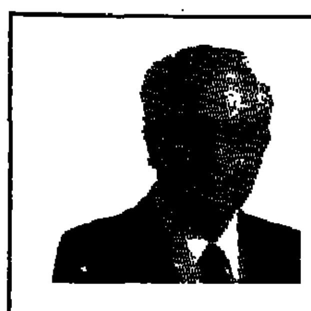


Martin Wolf

Democracy for the few

By not being democratic enough, India has pandered to minority groups and has failed to meet the needs of hundreds of millions of its citizens

This August, India will celebrate the 50th anniversary of its independence. Looking back over the past half century, observers are likely to conclude that the country's most remarkable achievement has been the entrenchment of democracy. Yet the question must arise whether Indians have paid a price for this achievement. The answer is that they did, but it was far bigger than it needed to be.

This does not mean democracy failed to bring benefits. Two, in particular, have been stressed by Professor Amartya Sen of Harvard University. First, India, with its free press, has avoided famines – a stark contrast with China, where from 23m to 30m people died of starvation between 1958 and 1961. Second, India's attempt at mass forced sterilisation, under Mrs Indira Gandhi, ended in electoral defeat. But the coercive "one-child" policy continues in China.

Yet, according to Prof Sen and Professor Jean Drèze, visiting professor at the Delhi School of Economics, this draconian policy has added little, if anything, to China's success in lowering the birth rate*. "Authoritarianism," they insist, "is an unreliable route to social progress." One hopes so.

Yet even admirers must admit that India's progress has been too slow, with 490m Indians still living on a dollar a day (at international prices). From a position of rough equality with China half a century ago, India's real income per head is now half of its rival's. India's adult literacy rate is no higher than that of Sub-Saharan Africa. Inequalities between men and women in nutrition, education and healthcare are pervasive.

India has shown important progress. It has managed, for example, to cope with a doubling of its population since 1960. But the rate of advance has been too slow. The proximate cause of the disappointing performance is clear: Indian government, at central and state levels, has done what it did not need to do and failed to do what it did need to do. Vast effort has been devoted to costly and corrupting economic interventions, while huge social challenges have received too little attention.

A central part of the explanation has been the way democracy operates in a vast country with an ill-educated electorate divided by language, caste and religion. The result has been the ascendancy of narrow interest groups. But this tendency, to an extent inevitable, was made far worse by the elite's adoption of a misguided form of Fabian socialism.

The government told industrialists what to produce, how and in what quantities. It prevented enterprises from laying off labour or closing. It controlled imports. It created monopoly importers of raw materials. It nationalised banks and insurance companies. It directed credit. It interfered in the pricing of foodstuffs, fertilisers, steel and oil. It dominated industrial investment. Fertiliser is subsidised, as is rural credit. Farmers receive electric power virtually free. Food is provided at subsidised prices through a largely urban public distribution system. Diesel fuel and kerosene are subsidised at the expense of petrol and aviation fuel.

Those who implement – and benefit from – these price controls, regulations and subsidies, prate of their value to the poor. Without exception they benefit the relatively well off far more. As another important book, by Mr Vijay Joshi and Mr Ian Little of Oxford University, argues, "almost all government interventions in industry have ... reduced the demand for labour. At the same time, almost all controls have channelled the benefits of growth ... to a minority of the population".**

Whatever the initial objectives of such policies, the willingness of Indian governments to intervene and subsidise has strengthened organised interests, sometimes indeed creating them. The policies were captured by corrupt politicians, self-seeking bureaucrats, industrialists, trade unionists, large farmers, almost any interest capable of organising. Meanwhile, the hundreds of millions of poor, illiterate Indians were ignored.

Consider job security regulations. These cover only large companies and the public sector, which employ less than 10 per cent of the labour force. But the trade unions that represent this labour aristocracy play an influential role in every political party. The array of policies affecting the labour market, international trade and so forth ensure that such privileged workers remained a tiny minority: the share of the labour force employed in industry has remained unchanged for more than 30 years.

Subsidies are an even more compelling example. A finance ministry discussion paper published this month divided subsidies into those on "merit goods" and "non-merit goods". The former category covers expenditures expected to provide benefits beyond those captured by the direct beneficiaries. Examples are primary education, basic health, sewerage and sanitation, roads, social welfare schemes and so forth. Examples of non-merit subsidies are those for fertilisers, food, power and other public enterprises.

In India, argues the paper, total subsidies were 14.4 per cent of GDP in 1994-95, with non-merit subsidies amounting to 10.7 per cent of GDP. Subsidies to power, for example, were Rs98.9bn ($2.8bn), and subsidies to industry Rs128.4bn. By contrast, subsidies to elementary education were a mere Rs110.1bn.

Mr Joshi and Mr Little condemn what India has created as "exclusive bourgeois socialism". Large benefits were poured on small minorities at the expense of economic dynamism and social equity.

India's failure is that it has not been democratic enough, rather than too democratic. The interests of the majority have been marginalised. To some extent, this must have been inevitable. In a country as large and diverse as India, the difficulty of creating what Professor Mancur Olson of Maryland University has called "encompassing organisations" – ones that reflect the aggregate interest in improved efficiency – is enormous.

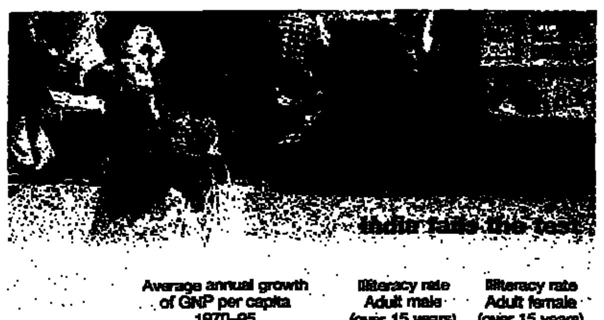
The population of a poor heterogeneous country naturally divides up into relatively small, self-interested and conservative lobbies. But this tendency has been hugely strengthened by the ideology of government. Intervention in every nook and cranny of the economy motivated self-seeking behaviour by potential beneficiaries.

The consequent drift towards waste and inefficiency might have been kept under control by a strong state able to disregard political forces. But a democratic Indian government could never hope to resist the numerous pressures put upon it.

The fundamental lesson is relevant beyond India. Liberalisation does not matter only because the market is more economically efficient. It will also defend the state from the corrupting clamour of partial interests, including those of its own agents. If India had never gone down the path of arbitrary interventionism and subsidisation, the government would have done far less. But it would also have been better able to do those things it alone could do.

Jean Drèze and Amartya Sen, India: Economic Development and Social Opprtunity (Oxford University Press, 1995)

***Vijay Joshi and I M D Little, India's Economic Reforms 1991-2001 (Clarendon Press, 1996)*



	Average annual growth of GNP per capita 1970-95	Illiteracy rate Adult male (over 15 years)	Illiteracy rate Adult female (over 15 years)
South Korea	10.0%	1.0%	3.0%
China	6.9%	10.0%	27.0%
Thailand	5.2%	4.0%	8.0%
Indonesia	4.7%	10.0%	22.0%
Malaysia	4.0%	11.0%	22.0%
India	2.4%	35.0%	62.0%

Source: World Bank, World Development Indicators, 1997

LETTERS TO THE EDITOR

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Shell would find market power eroded if it confused its roles

From Mr Henry S. Rowan.

Sir, John Kay, in arguing that Shell has wider responsibilities than its bottom line ("Called to account", May 16), rightly distinguishes between its acting to protect the environment or human rights as a matter of good business and doing so as a matter of ethics.

However, he makes no mention of competition, the core of the capitalist system. Shell has market power derived from its rights over oil in the ground, its distribution system and its technology – but it would see this erode were it to follow his advice and spend money on these values because they are good, per se. This point can be seen more clearly in sectors where competition is dog-eat-dog, such as shoes, textiles, autos, and retailing. Were Shell to follow Mr Kay's advice and its competitors did not, it would find that it was unable to sustain this programme.

Mr Kay confuses the role of the corporation with that of individuals and through them also government. Individuals can, and fortunately often do, act on these values as philanthropists and voters. Some of these people are Shell's shareholders who might reasonably expect the company to maximise the cashflow to them so that they can spend money on these good things.

Henry S. Rowen,
senior fellow, The Hoover Institution, and
senior fellow, The Institute for International Studies,
Stanford University,
Stanford, California, US

West's laboured concern

From Mr Christopher W. Blevins.

Sir, In concerning itself with third world child labour ("Call to end child labour", May 12), the western world is once again taking the holier-than-thou high ground. Though the fad of maligning the use of child labour is philanthropic and well-intended, it is nonetheless patronising and hypocritical. How convenient it is for the developed world to broadcast its morals unto others well after it has reached economic maturity. And though the west exploited such labour during its ascension it now feels it is inhumane and "unfair" for contemporary developers to follow the same route.

Of course, in an ideal world, child labour would be non-existent and while such labour is obviously undesirable, concerned policy must be left to respective nations. Prohibiting child labour would only quell the efforts of families in making ends meet which would further exacerbate the plight of children the Christian Aid initiatives are meant to help.

As with all development issues, long-run priorities should eclipse short-sightedness. Restricting child labour will only dampen development efforts and prolong the human malaise seen in the developing world.

Christopher W. Blevins,
4400 Chimneys West Drive,
Haymarket VA 20169, US

Not a recipe to support

From Mr L.G. Brookes.

Sir, Whatever the rights and wrongs of the case by Ms Harriet Lamb, head of campaigns at the World Development Council, against the sale of Hawk trainers to Indonesia (Letters, May 17/18) her advocacy of labour-intensive bias in economic decisions must be questioned.

Such a bias, if maintained, is a recipe for a poor labour-intensive society unable to support its present population at an adequate level.

L.G. Brookes,
16 Ashley Drive South,
Ashley Heath,
Ringwood BH24 2JT, UK

Unido invigorated by its former chief

From Mr Jose A. Zade Jr.

Sir, I refer to your otherwise excellent story "Elections for top Unido job postponed" (April 25), and I react to the sixth paragraph which casts former United Nations Industrial Development Organisation director-general Domingo Siazon's stewardship in unfavourable light for "ineffective, top-heavy bureaucracy closely associated with centrally planned command economies".

Mr Siazon presided over a Unido of the cold war days; but he invigorated the organisation with enterprise and optimised use of market forces. Those reforms were carried on by his successor, Mauricio Campos.

I commend to you the thought that Unido's present problems ought not to be attributed to the past.

Jose A. Zade,
ambassador,
Philippine Embassy,
Vienna, Austria

The FT Interview · Andrew Large

Much still to be done

UK financial regulation is costly and confusing, the SIB chief tells Andrew Gowers

Five years as chairman of the Securities and Investments Board have left their mark on Andrew Large. In conversation he dwells on the difficult moments, furrowing his brow as he picks circumspectly through the complexities of UK financial services regulation. And in his valedictory message as regulator of the City regulators, he focuses as much on problems still to be tackled as on obstacles overcome.

People are frustrated with the current system, he says, and so is he. The structure is complex and confusing for investors. It is costly for financial services companies, and cumbersome to manage. It finds difficulty in dealing with market abuses such as insider trading. And it still lacks credibility with the public, as well as with some of those it is supposed to regulate. The two-tier system "lacks efficiency and credibility", he says. It is characterised by "inconsistency, operational expense and duplication, and delays".

Some will find this rather odd coming from the man who has run the system for the past five years. If wholesale change is needed, was that not obvious in 1992? Why has he waited until now – two months before he leaves the job, but just after the election of a Labour government already committed to regulatory reform – to air the problem?

Sir Andrew's answer is typically careful. You have to understand, he says, where he was forced to start when plucked from the City to become the third SIB chairman since its creation under the 1986 Financial Services Act.

In 1992, the regulatory system was "in a very uncomfortable position". It had just experienced its most spectacular debacle, after failing to prevent Robert Maxwell from stealing millions of pounds from his companies' pensioners. It had yet to improve much the transparency of London's financial markets, investor protection, or standards of individual performance. "So we said, 'that's what we've got, let's make it work as well as we can'," says Sir Andrew. "And in the process we could highlight what might ultimately need changing."

The good news, he says, is that regulation has not stifled the innovation and flexibility of London's wholesale financial markets. This was one of the fundamental goals of the two-tier system – to deal separately with professional market operators and personal investors. "We started from the word go with a determination to distinguish between the areas where investors require less or more protection," he says. I think that's worked well. I'm quite often asked by regulators in other countries how we do it."

The big problems are twofold. First, the structure of UK regulators is neither efficient nor particularly effective. Second, there are still important deficiencies in protection and redress for the retail investor. The two are, he says, related.

At issue is the division of responsibility created during the political haggling that led to the Financial Services Act. This established a group of "self-regulatory organisations" (SROs) with the task of policing their members. The SIB was given the job of overseeing the system but had few direct powers, short of what Sir Andrew calls "the regulatory atomic bomb" of derecognising an SRO. "The compromise certainly breathed life into the system, but today it lacks efficiency and credibility," he says.

This is not, he insists, a matter of laxity by individual SROs, or the old City caricature of "gentlemen letting each other off over lunch". The trouble is that due process, and much else, can be unnecessarily complicated by the fragmented structure. "I've often felt that it would take a psychologist to explain fully what happens in a system where there are three self-governing bodies, each with its own board and executive, each keen on its independence, a system in which there is little sense of collegiality, no incentives to co-operate and few penalties for not doing so."

The results include inconsistency, the "regulatory lottery" of differing investor complaints procedures; unnecessary expense for financial services companies; and frustrating delays in dealing with problem cases, as paper is pushed back and forth between the SROs and the SIB.

The *locus classicus*, complains Sir Andrew with feeling, is the pension mis-selling scandal, in which tens of thousands of investors are still awaiting compensation from companies that sold them personal pensions on inappropriate terms in the 1980s and 1990s. "We were confronted with an industry that basically refused to accept there was a problem. There were all kinds of excuses from the industry as to why they couldn't do it. What was needed was a massive cultural adjustment."

Sir Andrew is reluctant to criticise the Personal Investment Authority, the relevant SRO for failing to get to grips faster. The principal blame, he insists, lies with the boards of the companies that did not exercise proper controls over their salesmen and then practised denial for three years.

"You can devise regulatory incentives, whereby the better people are at complying with regulatory standards, the less that's going to mean their business will be interfered with by the regulator." But that will mean relying more on top managers to put the right controls in place and holding them to account if they fail.

Sir Andrew promises some detailed proposals in this area within the next few weeks. More broadly, the new government looks set to take a fresh look at the whole regulatory structure. Labour's business manifesto committed it to giving the SIB "direct responsibility for the regulatory regime" – implying a merger between it and the three SROs. Sir Andrew feels such a move is overdue, and will command broad support in the City on efficiency grounds. He urges the government to move quickly towards legislative proposals to prevent regulators becoming paralysed by "planning blight".

The important thing, though, is not a dramatic extension of regulatory powers. "The main benefit of bringing the various bodies together is that you don't have them tripping over one another as to who uses which power."

COMMENT & ANALYSIS

FINANCIAL TIMES

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Tuesday May 20 1997

Walking the Thai tightrope

The Thai government is savouring a double victory against what finance minister Amnuay Viravan has dubbed the "outside plunderers" of the financial markets. Another bout of speculation against the Thai baht has been defeated. And the authorities have shown they have some powerful new weapons available to avoid future attacks. Speculators will think twice before undertaking another sally against the baht. But they will not stay away forever; or not, at least, without tougher government efforts to tackle the problem.

Thailand, like Mexico in 1994, is living with the dysfunctional combination of an exchange-rate peg that is appreciating in real terms, a debt-ridden domestic financial system, and a large current account deficit. Until recently, many felt that a declining current account deficit and efforts to improve the situation in the financial and property sector might just be enough to get the government off the hook. The trouble, as investors spotted last week, is that promised solutions are taking a very long time to arrive.

Thailand does at least have two tremendous advantages over the Mexico of December 1994 – one tactical, one more fundamental. The tactical asset is a much greater ability to keep even large-scale financial speculation at bay. At about $38bn, the Bank of Thailand's stock of foreign reserves is considerably larger, relative to the domestic market, than was the case in Mexico. As was demonstrated last week, it can also call on other central banks in the region to help it, in effect, shut down short-term speculative baht trades altogether.

These are powerful weapons indeed, since they buy the government time. But if a devaluation were simply a matter of time, it would be cheaper – both financially and in terms of Thai credibility – to get it over with now, rather than in a Mexico-style debacle in a few months time. The more important advantage Mr Amnuay enjoys is that it is still, just, possible to see how the government might see off a devaluation altogether. The extent of any further growth in exports will be critical. This will be in the lap of the gods. But the other side of a baht rescue strategy is not.

Mr Amnuay needs to convince the doubters that this year's budget deficit, the first in 10 years, will be very modest and will not be repeated. And the government needs finally to get to grips with the financial system. So far no technically bankrupt finance company or bank, it seems, has been too small to be helped. Many of them deserve to fail. Mr Amnuay must let them if he is not to fail himself.

Deutsche Bank

When Deutsche Bank declares that it proposes to run down its shareholdings in German industry, the business world sits up and listens. Yet the news is probably less important than it appears at first sight.

Implementation is, for a start, dependent on a tax reform package which the banks hope will take them off a formidable hook: their historical liabilities for capital gains on industrial holdings are a powerful deterrent to divestment. Given the opposition SPD's ability to block measures in the upper house of the German parliament, a successful outcome is far from certain.

Meantime the banks' influence in industry derives less from their equity holdings than control of the proxy votes that German shareholders deposit, along with shares held mainly in bearer form, with their banks. Deutsche Bank has, in addition, been diluting its holdings by refraining from subscribing for new capital issues.

The more interesting aspect of Deutsche's newly declared intentions concerns its desire to increase holdings of foreign equity. When all the speculation in capital markets has been about a shift in German banking towards greater emphasis on equity returns and a more Anglo-Saxon style of operation, Germany's biggest bank is saying, in effect, that the German model of relationship banking is a viable export.

No doubt this will shock the proponents of the more transactional style of banking that prevails in the English-speaking economies. Some of Deutsche's own shareholders may feel that they would prefer to diversify more directly by choosing their own foreign equities for their own portfolios. Yet they will be whistling in the wind, given that the proxy system gives German banks effective voting control over their own equity.

Deutsche's desire to shift the balance of its industrial portfolio abroad is, in fact, a natural evolution of the German banking culture. Both in the 19th century and after the second world war, the universal banking model offered a sensible means of compensating for the under-developed state of capital markets. In the transition economies of Eastern Europe and in developing economies around the world, universal banking may be able to perform a comparable function.

The strength of the German model is the long-term nature of the support its banks offer to industry. These qualities are well worth having. But before importing them wholesale it is worth remembering the Achilles' heel of the German system. Its capital is used much less productively than in the English-speaking economies.

Policy runs dry

There are three ways to allocate a scarce resource: by price, by rationing or by wringing your hands in public and asking people to behave more responsibly. The last is traditionally favoured by British politicians trying to match demand for water to supply from dried up reservoirs and leaky pipes.

In most industrialised countries, water is metered and paid for by volume. But in the UK, about 90 per cent of domestic users still pay a fixed annual water charge. So in hot dry weather they soak their lawns with high-quality drinking water.

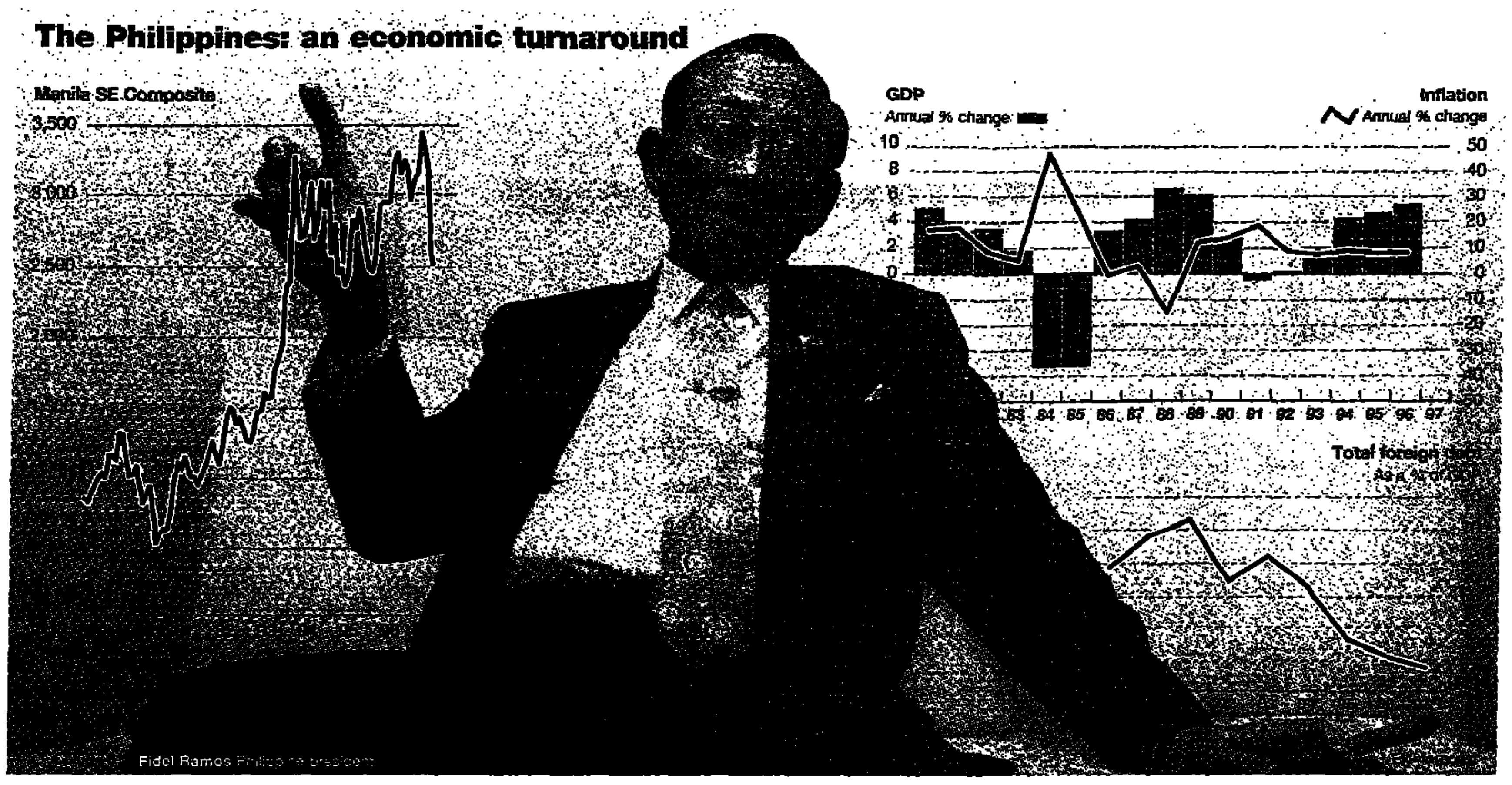
This quaint approach to charging and conservation no doubt reflects the fact that the British, living in wet and misty islands, used to regard water almost as a free good. This attitude has become so entrenched that the Labour government came to power promising to resist the imposition of water meters. And yesterday it called a conference of the industry to explore the other options.

There are some. If demand cannot easily be limited, the supply side can certainly be improved. Water companies, which have suffered the driest 25 months for a century, want to build more reservoirs. They would. If they can convince Ofwat, the regulator, that such projects are needed, they have a good chance of putting up prices and increasing profits. But Ofwat has told them that they must first repair leaking pipes from existing cashflow where this would be cost-effective. This, and measures to limit waste, could save perhaps a quarter of current supplies.

After a slow start in the early years of privatisation, Ofwat is taking a commendably tough line with the industry. More thought should now be given to ways of sharing water between different authorities and for exploiting existing resources. It hardly seems sensible to pump the Thames dry while the water table under London is rising to dangerous levels.

But improved supply and conservation must be matched by a stronger push towards metering – encouraged and monitored by Ofwat to prevent monopoly abuse. The government may be right that compulsion would be resisted, except for heavy users who must already accept meters in some areas. However, much more could be done by imaginative marketing and pricing incentives where this would be economic. A standing charge could protect the poor. Careful users could be rewarded and the extravagant penalised.

A rational pricing system would signal to consumers the true cost of building a new reservoir, so that they could decide for themselves whether, at that price, it would be better to turn the tap off. Novel as this idea may be in the water industry, it applies to the rest of the economy – and it works.



Fidel Ramos Philippine president

A hard act to follow

Whoever succeeds Philippine President Ramos must ensure that the economy does not slip backwards, writes **Justin Marozzi**

The Philippines is still a year away from presidential elections. But, five years into a reform programme that has brought startling economic progress to a country once known as the "sick man of Asia", Manila is already gripped by one question: who will succeed President Fidel Ramos?

"History will judge Ramos as the man who restored the country's pride," says Dr Julius Caesar Parreñas, director of the Centre for Research and Communications, a Manila-based think-tank. "His economic policy in the past three years has been more revolutionary than any other administration since the 1950s. But there is now a feeling in some areas that only Ramos has the political savvy to continue and deepen the reforms which are needed to make us the place to do business in Asia."

The Ramos achievements read like an International Monetary Fund shopping list: political stability, deregulation, privatisation, a stable foreign exchange rate, controlled inflation, liberalisation of the financial markets and strong export growth. Last year, the government concluded a peace deal with the largest Moslem rebel group in the southern region of Mindanao after a 24-year insurgency.

The policies have brought unprecedented economic success, reversing years of erratic performance and negative growth in the early 1990s. Last year, growth in gross domestic product accelerated to 5.5 per cent, and the Asian Development Bank is forecasting 6 per cent growth for 1997.

Unless the constitution is amended to allow Mr Ramos to run for a second six-year term, his era will come to a close next year. There is concern that a change of leadership may push the country back into its boom-bust habits of the past.

The possibility of Mr Ramos seeking re-election – a prospect now receding – is strongly opposed by the senate and the powerful Roman Catholic church: in many it stirs uncomfortable memories of the former dictator Ferdinand Marcos, who prolonged his stay in Malacañang Palace for two decades.

Whoever is elected next year will have a less daunting task than that faced by Mr Ramos when he came to power in May 1992. Then, the country's economic prospects were crippled by "brown-outs" (power shortages), political instability and a long-established culture of protectionism which the administration of President Corazon Aquino, besieged by six coup attempts, had only been able to scratch at.

Mr Ramos was able to push through a wave of difficult reforms partly because he managed to weld together an effective "rainbow coalition". This enabled his administration to dismantle monopolies in the telecommunications, civil aviation, oil, shipping, water and power industries. The opening up of the domestic banking sector in 1994 prepared the ground for vigorous growth in financial services. In spite of vehement opposition from local institutions, 10 foreign banks – including Tokyo Bank and Fuji Bank of Japan, ING of the Netherlands and Deutsche Bank – were allowed to set up local branches.

The country stands on the brink of graduating from the IMF's tutelage after 35 programmes in 23 years. Passage of the remaining portion of tax reform, designed to ensure dependable revenue streams as privatisation proceeds dwindle, will complete the set of required IMF conditions, though the June deadline is rapidly approaching.

The World Bank says structural changes are irreversible. "I am optimistic because most of the reforms have been done very transparently," says Mr Vinay Bhargava, head of its mission in Manila. "Everything which has been done has a legal basis, implemented with public regulations, not presidential decrees."

Some observers are less sanguine. Many in the business community fear that recent progress may be undermined by the man considered most likely to succeed Mr Ramos: Mr Joseph Estrada, a former film star turned populist politician and, as vice-president, the country's leading opposition figure.

As other candidates jostle for Mr Ramos's "anointment", Mr Estrada has emerged a consistent leader in the polls. He has nationwide appeal but is thought by some to lack leadership and vision. Mr Estrada admits to a lack of grounding in economics but recently told a gathering of foreign investment bankers he had started taking lessons.

Aside from suspicions that an Estrada presidency could presage a return to cronyism – his potential financiers include former Marcos associates – few know what he stands for. "What is remarkable about Estrada is that in four years as vice-president and six years as a senator he has failed to come out with a single substantive policy statement," says a western diplomat in Manila. "He is essentially a nationalist and populist but his closest advisers have been working hard to develop a set of policies which won't frighten anyone, especially business."

If he is elected, there will be much to do. Important tasks for the next government include the liberalisation of the sluggish agriculture sector, which has hampered the country's overall growth. Deregulation of import tariffs is opposed by powerful vested interests in the rice, sugar and coconut industries. Vestiges of 1970s nationalism also remain in the prohibition of foreign ownership of land and mass media. The restructuring of an outdated civil service is also needed.

"Over the next decade, if our civil service continues to fall behind the demands of governance, it's going to tell on our economic growth in an extremely profound way," says Mr Alex Magno, professor of politics at the University of the Philippines. "You can't run a 21st-century government with a 19th-century bureaucracy."

Spending on dilapidated infrastructure will have to rise from 5 per cent of GDP to an estimated 9 per cent if the country is to sustain recent growth levels. The constitution will also have to be changed. Framed in the heady days of 1987 by Mrs Aquino, it grants what some see as excessive powers of review to the judiciary.

In February, the Supreme Court unnerved foreign investors by overturning the award of a hotel privatisation to a consortium that included a Malaysian company. Ominously, it cited the principle of national patrimony.

Another serious concern comes from Thailand, the Philippines' closest economic cousin. Recent turmoil in Thailand's financial sector has brought worries that the Philippine banking and property sectors, which together represent 40 per cent of the stock market index, are headed for a fall. Warning signs have come in the form of a widening trade deficit, the alarming 140 per cent annual growth rate of banks' foreign borrowings and apparently understated exposure to the booming property market.

Positive indicators include three years of budget surplus, strengthening reserves, healthy export growth, one of the region's most stable currencies and a low debt service as a percentage of exports. But such are the nagging concerns, the stock market has dropped by roughly a quarter below its February all-time high.

Against this backdrop, the question of whether Mr Ramos will seek re-election must be resolved. A sign that he may be more interested in a second term than he lets on is that palace aides have been arguing in recent months that the only man who is capable of beating Mr Estrada is the president himself.

The suggestion of changing the constitution to allow a second term for the president and other officials has found a sympathetic audience in the House of Representatives, where roughly one-third of congressmen are approaching the end of their terms.

Likewise, more than 70 per cent of mayors and governors are up against term limits. But, in the upper house, where there is implacable opposition, senators recently voted 23 to one against convening a constitutional assembly. The Supreme Court itself has ruled against the "popular initiative". But in the swift-moving world of Philippine politics even that could change.

Assuming Mr Ramos does not run, there are several contenders who might receive the presidential blessing to take on Mr Estrada. These include Mr Renato de Villa, the defence secretary and retired general who has made a habit of following in Mr Ramos' footsteps. A safe but unimaginative pair of hands – his nickname is "The Clone" – Mr de Villa is considered the most likely to receive the presidential nod.

Senator Gloria Macapagal-Arroyo, daughter of a former president, is another serious contender. Glamorous, popular and armed with several economics degrees, Ms Arroyo is a formidable business-friendly candidate, but lacks nationwide political support.

Five years ago, few would have considered the Philippines to be the next Asian tiger and the question of whether economic growth could be sustained had not even been addressed. But events since 1992 have proved to detractors that its loud and unruly democracy is compatible with economic prosperity.

Essential now is a smooth transition. "While the president keeps everyone guessing, he is playing a game of high stakes," says Mr Magno. "He must show he is in charge of the succession process if he is to maintain business stability."

· OBSERVER ·

Golden prospects

■ John Felderhof, former senior vice-president of exploration for Calgary-based mining company Bre-X, has been sitting tight in the Cayman islands – in a villa bought for $2.9m in his wife Ingrid's name – since he arrived in the British colony in the Caribbean on April 22. Felderhof got the Canadian mining industry's prospector of the year award in March shortly before Bre-X's Busang find in Indonesia proved to be a dud and not the world's biggest gold deposit. Felderhof, who sold many of his Bre-X shares before the fraud was revealed, has denied being part of the scam.

The Cayman authorities say Canada has not asked for any investigation of Felderhof, but his request for permanent residency – which may take four years to process – would not protect him from extradition. If a Canadian request was filed, an investigation would follow and "the law will take its course", said a Cayman official yesterday.

The Cayman authorities are sensitive about the colony's reputation as a tax haven and like to be helpful to friendly countries' law enforcers: this month a Swiss request for repatriation of a property developer for discussions about alleged fraud of about $300m was granted in double-quick time.

Bank next door

■ Staunchly communist North Korea likes to spit fury at its capitalist southern neighbour but it appears Pyongyang is not above applying the tenets of Adam Smith when it spots a chance of profit. Observer has learned that diplomats at the North Korean embassy in Hanoi are in hush-hush talks with the World Bank, but it's nothing to do with any intention on the part of the cash-strapped country to seek membership of the institution.

The bank's French colonial villa is getting a bit cramped and it wants to expand into the villa next door, one of five properties North Korea acquired in Hanoi when the two countries had fraternal communist ties. "They're really pretty businesslike," one insider from the bastion of free market economics says of the world's least capitalist nation.

Goalist ambitions

■ English soccer champions Manchester United are mightily peeved that French captain Eric Cantona is hanging up his boots at only 30 because he wants to quit at his peak. But it's a godsend for France's political cartoonists during the rather dull campaign for Sunday's parliamentary elections.

Pick of the bunch as usual was Plantu in Le Monde, who cast prime minister Alain Juppé as Cantona watched by "fans" President Jacques Chirac and Philippe Séguin, the Gaullist Eurosceptic increasingly seen as a possible successor to Juppé, particularly in the event of a narrow centre-right victory. "It would be good for him to leave at the summit of his glory," Séguin muses. Ooh Ahh.

The lady vanishes

■ The gritty US television sitcom *Roseanne* ends nine ratings-topping years tonight, a victim of the American dream. The problem, it seems, is the US's economic resurgence: the recovery of middle America has chased the eponymous blue-collar heroine right out of the working class.

Roseanne Conner can no longer carry the standard of blue-collar America in its battle against an economically hostile world – partly because the world is no longer so hostile, and partly because her collar is no longer so blue. She has moved from an assembly-line job in a plastics factory, through a stint running that quintessential American eatery a "luncheonette", to wealth after winning the lottery. Roseanne's daughter, Darlene, graduates from a threatened future at the supermarket checkout to go to college and land jobs in advertising. The Conners have made it, and their upward mobility has put an end to the series.

It risked being destroyed by self-indulgence in any case: over the years, the real-life actress Roseanne became increasingly obsessed with her past, and cosmetic surgery gave her new sleek lines out of keeping with middle America. It was Roseanne's own version of downsizing. And it helped to kill her screen persona.

General revision

■ Alexander Rutskoi, the walrus-moustachioed Soviet general turned politician who faced treason charges after leading the 1993 revolt against President Boris Yeltsin, was in the City of London yesterday, at investment bank Flemings banging the drum for Kursk, the rust-belt region of central Russia which elected him as governor six months ago. As the only non-communist governor in the area he is back in favour with Yeltsin and now says he was never an enemy of market reforms – just the way they were carried out.

The Financial Times

100 years ago

Rebels In Monte Video
For the tenth time or so, the official announcement comes from Monte Video that the rebels have been completely routed and have fled, and, of course, the revolution is over. The next announcement to the same effect is due in about three weeks' time. Not a little striking, too, is the fact that the buying of Uruguay bonds was again pronounced yesterday. So far as we can observe, most of the orders came through a Brazilian bank. From the style of dealing it looks as though it was the wish of the operators to pick the market up by catching it short.

50 years ago

Czech Bank Mergers
The Czechoslovak Ministry of Finance has formulated a plan for merging the leading banks in the country. The suggestion is that the nationalised commercial banks in Bohemia and Moravia should be fused into two institutions. A similar proposal applies to the banks in Slovakia. By this merging of all large banks, industry and trade remaining under private ownership would be totally dependent on one institution which would be under the influence of the Ministry of Finance.

FINANCIAL TIMES
Tuesday May 20 1997

Canada's Tories back from edge of the grave

By Bernard Simon in Toronto

Canada's Progressive Conservative party is showing signs of recovery from a near-death experience four years ago which took it from being a two-term government to having two seats in the House of Commons.

With less than a fortnight before the June 2 general election, opinion polls show the Tories making strong gains in Quebec and the four Atlantic provinces – Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland.

The polls confirm that the ruling Liberals are likely to win a second term in office. But a struggle for right-of-centre votes between the Tories and the Reform party, based in western Canada, is set to dominate the rest of the campaign.

Reform and the Tories are pouring resources into Ontario, which accounts for 40 per cent of Canada's economy and has up a third of the 301 seats in the House of Commons.

The Liberals won all but one Ontario seat in 1993, helped by a split rightwing vote in many constituencies.

The Conservatives' recent gains have come mainly at the expense of the secessionist Bloc Québecois, under Mr Gilles Duceppe, whose campaign is stumbling from one problem to another. The BQ, which supports independence for mainly French-speaking Quebec and won 54 seats in 1993, is the official opposition.

Canada's prime minister Jean Chrétien (left) and Tory leader Jean Charest take part in the televised debate Picture: Reuter

Mr Duceppe's predicament was evident on Sunday evening during a French language television debate between the party leaders. The original debate was suspended last Tuesday after the moderator, a Quebec TV star, was taken ill.

The five participants struggled to recreate the tension evident on Tuesday. Mr Duceppe was especially cautious, saying that Quebec sovereignty was "more important than Gilles Duceppe". Much of the sparring was between Mr Jean Chrétien, prime minister, and Mr Jean Charest, the Tories' youthful leader.

The latest polls suggest that the Liberals, Conservatives and BQ have roughly equal support in Quebec. The Tories owe their gains mainly to the popularity of Mr Charest, who has presented himself as the only leader able to achieve "national reconciliation" by bringing a fresh but vaguely defined approach to the national unity issue.

The Tories' problem, as in 1993, is that their support is thinly spread across the country. Even in Quebec, their ability to translate polling numbers into votes may be hampered by weak grassroots organisation.

Mr Charest's conciliatory message has been less well-received in Reform's western strongholds of Alberta and British Columbia. Mr Preston Manning, Reform leader, said in Sunday's debate that Quebec's future should not be dominated by leaders from the French-speaking province. "It's a matter for us all," he said.

ACC in ground-breaking Deutsche Telekom deal

By Alan Cane in London

Deutsche Telekom has concluded a ground-breaking deal with a US-owned telecommunications company that should accelerate competition in Europe's largest telecoms market.

ACC Telecom, the UK-based subsidiary of ACC Corp., a US telecoms operator, said it had become the first "switchless reseller" of Deutsche Telekom's voice services.

That means it has the right to buy capacity from DT at wholesale rates and sell it on to its own customers, typically at up to 20 per cent off DT's standard prices. DT provides the basic call conveyance and switching but ACC is responsible for billing and will essentially "own" the customer.

Mr Raj Raithatha, ACC Telecom's finance director for Europe, said yesterday that the deal would not be hugely profitable for the company but it gave ACC "first entrant" advantage in the market.

ACC's main targets will be small and medium sized German companies spending less than DM5,000 ($2,950) a month on telephone calls and which do not, therefore, qualify for DT's "Dial and Benefit" business discount scheme. Mr Raithatha said the company had signed 10 customers in the first week of marketing and hoped to sign up to 5,000 in the first year of operations.

DT has agreed to the deal partly to fulfil conditions laid down when European competition authorities and the US Federal Communications Commission separately agreed to allow "Global One", a joint venture between DT, France Telecom and Sprint of the US, to begin operations last year.

The FCC was concerned that it could use monopoly profits from the closed markets of France and Germany to pursue business in open markets such as the US or UK.

It set as a condition "the existence of opportunities to provide basic switched voice resale". DT expects to win further market freedom for Global One for fulfilling the condition.

The German market, worth more than DM60bn annually, is a target for telecoms operators hoping to take market share from DT after the full liberalisation of Europe's telecoms markets next January 1.

British Telecommunications has established a joint venture with the industrial group Viag, while WorldCom, a US operator, is laying cables around the major financial centres.

NEC to boost chip output on upturn hopes

Continued from Page 1

manufacturers in the world, were the first to scale back production to stabilise global prices. Earlier this year Hitachi shelved plans to construct a joint venture memory chip plant in Malaysia, while other manufacturers reduced planned capital spending.

Toshiba warned in March that profits would be lower than expected partly because of the sharp fall in semiconductor prices. Since then, however, memory prices have stabilised and several manufacturers have expressed confidence that the cycle has turned.

EMI in talks over plan to sell music online

By Alice Rawsthorn in London

EMI, the UK group which is one of the world's largest record companies, is in negotiations to sell music online, setting an important precedent for the industry.

It has been possible to distribute music digitally, via the internet for instance, for some time. But until now companies such as EMI, which numbers the Beatles and Spice Girls among its artists, have eschewed digital distribution, because of concerns about piracy and fears of endangering relationships with record retailers.

Eurodat, a privately owned French company, recently launched a pilot music sales project on a high-speed cable network run by Lyonnaise des Eaux, France's largest cable TV company.

The system operates like a digital jukebox: consumers order from a selection of 400 album tracks, and the music is relayed to their computer hard discs as a digital signal, which is encrypted to prevent pirating of the recordings.

Consumers pay for the tracks on Kleline, a secure payment system run as a joint venture by Paribas, the French banking group, and LVMH, the French luxury goods group.

Since Eurodat's launch in April, it has sold music from independent French record labels. It is now in discussions with several multinational music groups, according to Mr John Griffin, chief executive officer – but talks are most advanced with EMI.

Mr Jeremy Silver, EMI's vice-president of interactive media, confirmed that negotiations with Eurodat were under way. He said EMI was now verifying that Eurodat's software was adequate to prevent unauthorised recording and provide safe payment for consumers.

If all went well, said Mr Silver, EMI would sell its music on Eurodat from next month.

At present Eurodat is accessible from 400 homes in Paris, Strasbourg and Le Mans. The company is in talks with other high-speed internet providers to extend its service.

Over the long term the internet has the potential to absorb a substantial share of the global music market, worth $40bn at retail last year. It is expected to have particularly strong appeal to young consumers, who tend to be frequent record buyers and regular internet users.

Digital distribution could be a highly profitable vehicle for distributing music, because digital jukeboxes will cost considerably less to run than record stores.

THE LEX COLUMN

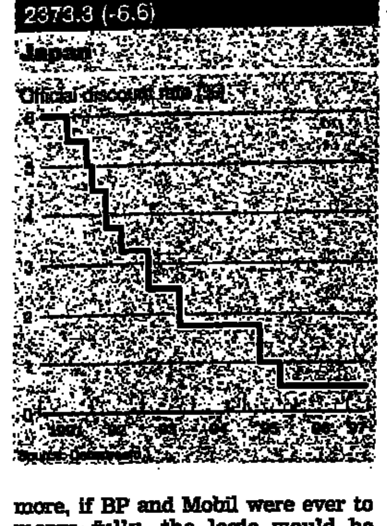
Rate debate

Japan has confounded the pessimists. The rise in consumption taxes last month did not drive the economy back into recession, as some had feared. Retail sales may have slipped, but anecdotal evidence shows consumer spending to have been fairly resilient. Some investors, though, appear to have mistaken a narrow escape from intensive care for a clean bill of health. The Nikkei index has risen by more than 17 per cent in five weeks. Bond yields have also jumped sharply from 2.15 per cent to nearly 2.6 per cent, and there has been intensified speculation about an early rise in the official discount rate (ODR).

This is all overblown. The debate may have shifted from if interest rates will rise to when, but growth is hardly robust. Inflation, meanwhile, is nowhere to be seen. And while reports of consumer spending may be comforting, the Bank of Japan will certainly not be tinkering with rates until it has seen a decent batch of economic data. All of this makes a move in the ODR much before the fourth quarter unlikely. A necessary preliminary will be for the intervention rate to rise above the ODR; at the moment it still remains below.

While official policy may remain on hold, investors should not be complacent, especially those who have borrowed cheap yen funds to fund asset purchases elsewhere. Seemingly dead certain investment propositions can very quickly turn sour. And an upturn in Japanese rates will be a seismic event to match the turn in US rates in February 1994.

FTSE Eurotrack 200: 2373.3 (-6.6)



Oil industry

Speculation that Mobil and Amoco might merge their non-European downstream businesses may not be confirmed, but the notion makes sense. It would be just the latest – if perhaps the biggest – of oil industry deals designed to exploit economies of scale and boost dull downstream returns. But where would such a marriage leave British Petroleum? After all, BP and Mobil merged their European downstream businesses last year in a deal which many hoped could prove the precursor to a full merger. If Mobil is flirting with Amoco, some are now worrying, has BP been left on the shelf?

Not necessarily. For one thing, Mobil could easily be talking to several potential partners. Furthermore, if BP and Mobil were ever to merge fully, the logic would be mainly about more clout and a better balance of assets *upstream*. It would not be likely to maximise potential synergies downstream, for the simple reason that the businesses are, inevitably, not a perfect fit. Certainly in the US, a Mobil/Amoco downstream combination looks more formidable than one with BP. And the hypothetical prospect of a broader Mobil/BP mega-merger should not obstruct such an alliance, because there is no reason in principle why the two separate deals could not be reconciled.

Of course, this would all be a *bit* messy. But that is precisely the point. The traditionally integrated majors are increasingly and rightly focused on pooling operations to improve returns. That is bound to require lateral thinking in juggling apparently conflicting partnerships. And at times it *will* be messy.

British Airways

Quite why BA was so enthusiastic about its "record" results yesterday is a bit of a mystery; in fact operating profits fell 8 per cent, before restructuring charges. To be fair, BA cannot be blamed for a 20 per cent spike in fuel prices. But even the underlying performance does not look so brilliant. It may seem impressive that unit costs grew by just 1.3 per cent, and would have fallen by 0.7 per cent without the fuel effect. But when unit revenues also fell – by 0.3 per cent – the harsh reality is that such efficiency gains are a necessity not a plus. Nor is it surprising that investors were a touch unnerved to learn that the company is stepping up its capital investment programme by about a third. It is, of course, the traditional undoing of airline stocks that good times too often tempt managers into buying lots of new aircraft.

Still, against these worries have to be weighed two powerful attractions. The first is the evident drive behind BA's efficiency programme; although much of the benefit will doubtless be competed away in time, there is still something to be said for being ahead of the pack. Second is the prospect of the alliance with American Airlines, which should yield powerful financial rewards. For both reasons, the shares' strong outperformance in recent months looks convincingly justified.

UK utilities

Believe jaundiced investors, and utility stocks are little better than bonds – cash cows best valued on yields. But if so, why has the new mood in Britain's gilt market not prompted a similarly enthusiastic revaluation in utility share prices? According to one seductive theory, for instance, recent weeks' one-off cut in gilt yields should, by reducing the companies' cost of capital, lead to an enduring boost to utilities' market values. Sadly, this effect is marginal at best. If utilities' cost of capital is cut, regulators will in due course cut their returns. Shareholders could only hope to capture the benefit in the very short run.

Still, that is not to deny that a cut in gilt yields is bound to cast utility valuations in a flattering light. At 5.6 per cent on average, utilities' prospective yields may remain at a discount to gilts. But remember: dividend growth over the next few years should be formidable. So look ahead to, say, 1999-2000 and the stocks will be trading at a significant yield *premium* over gilts. And even on cautious forecasts, dividend growth thereafter means the premium is set to grow.

Is such a premium justified? Some might argue so, on the grounds of regulatory uncertainty. But even in the US, whose regulatory regime is grim for shareholders, the average yield on utility stocks tends to be in line with the yield on Treasuries – not above it. UK utilities continue to offer intriguingly good value by comparison.

Additional Lex note on Alternative Investment Market, Page 28

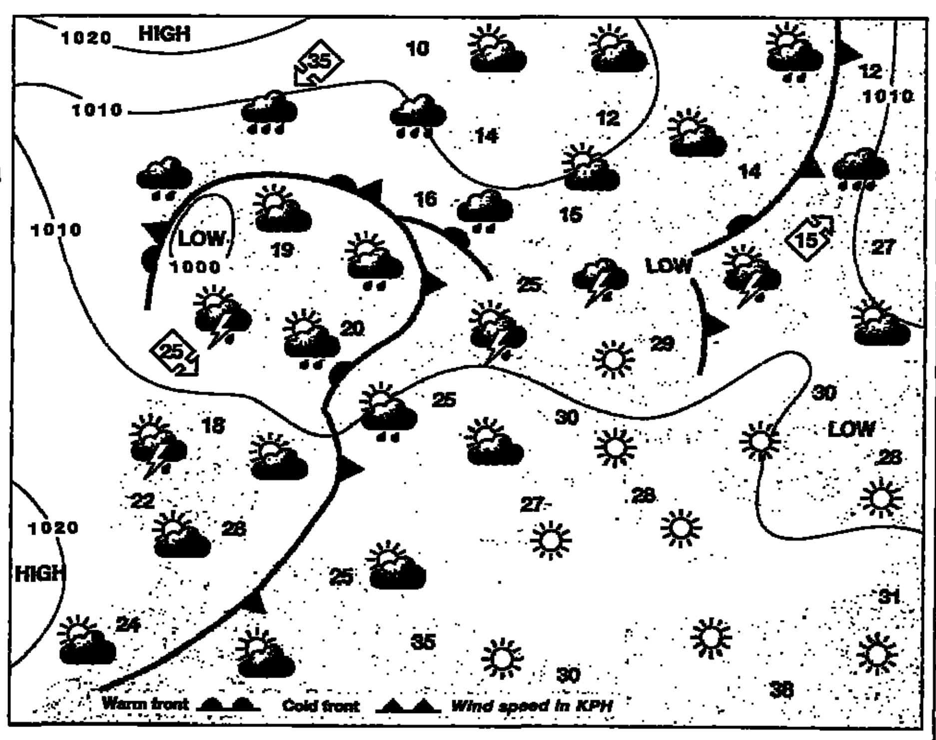
FT WEATHER GUIDE

Europe today

A disturbance over the British Isles will cause rain in Ireland and Scotland. Western England will have showers. Showers and some local thunder will also occur in France and the Benelux. Germany will have some rain or showers. Most of the Iberian peninsula will have mixed sun and cloud, but the north west may have some rain or thunder showers. North Italy will have showers. The south will be sunny. The Balkan states will be sunny, but Bulgaria will have a thunder shower. Turkey will be sunny.

Five-day forecast

Low pressure will prevail over the British Isles and northern Germany until Wednesday, producing cloud, rain and showers in north-western Europe.
High pressure over Iceland will build across the British Isles towards the Benelux during the second half of the week, bringing more settled conditions.



TODAY'S TEMPERATURES

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

	Maximum	Beijing	shower 24	Caracas	thund 31	Faro	fair 21	Madrid	fair 22	Rangoon	rain 33
	Celsius	Belfast	rain 15	Cardiff	shower 16	Frankfurt	shower 21	Majorca	fair 24	Reykjavik	fair 8
Abu Dhabi	sun 40	Belgrade	sun 28	Casablanca	fair 21	Geneva	shower 21	Malta	sun 27	Rio	cloudy 21
Accra	thund 32	Berlin	shower 23	Chicago	fair 16	Gibraltar	fair 23	Manchester	shower 17	Rome	fair 27
Algiers	cloudy 25	Bermuda	fair 26	Cologne	rain 21	Glasgow	rain 12	Manila	shower 35	S. Frsco	fair 21
Amsterdam	shower 20	Bogota	rain 21	Dakar	fair 28	Hamburg	rain 19	Melbourne	fair 17	Seoul	shower 23
Athens	sun 29	Bombay	fair 36	Dallas	fair 27	Helsinki	fair 11	Mexico City	shower 26	Singapore	shower 32
Atlanta	shower 32	Brussels	shower 20	Delhi	sun 42	Hong Kong	rain 32	Miami	shower 32	Stockholm	rain 12
B. Aires	fair 19	Budapest	fair 27	Dubai	sun 40	Honolulu	sun 30	Milan	shower 21	Strasbourg	shower 19
B.ham	fair 17	C.hagen	rain 12	Dublin	shower 16	Istanbul	sun 26	Montreal	rain 14	Sydney	shower 17
Bangkok	rain 35	Cairo	sun 39	Dubrovnik	sun 25	Jakarta	shower 32	Moscow	shower 12	Tangier	fair 21
Barcelona	fair 21	Cape Town	cloudy 16	Edinburgh	rain 11	Jersey	shower 15	Munich	thund 24	Tel Aviv	fair 30
						Karachi	fair 36	Nairobi	shower 24	Tokyo	rain 23
						Kuwait	fair 40	Naples	fair 27	Toronto	cloudy 14
						L. Angeles	fair 23	Nassau	shower 29	Vancouver	rain 16
						Las Palmas	fair 24	New York	shower 29	Venice	fair 23
						Lima	fair 28	Nice	fair 23	Vienna	thund 25
						Lisbon	fair 20	Nicosia	sun 29	Warsaw	shower 18
						London	fair 19	Oslo	rain 13	Washington	shower 30
						Lux.bourg	shower 17	Paris	shower 20	Wellington	rain 17
						Lyon	shower 23	Perth	fair 21	Winnipeg	sun 13
						Madeira	shower 20	Prague	thund 24	Zurich	shower 19

FINANCIAL TIMES
COMPANIES & MARKETS

©THE FINANCIAL TIMES LIMITED 1997 Tuesday May 20 1997 Week 21

IN BRIEF

ITT in $200m sale to FelCor

ITT, the US hotel and casino company facing a $6.5bn hostile bid from Hilton Hotels, has struck a deal to sell five ITT Sheraton hotels to FelCor Suites Hotels, a real estate investment trust, for $200m in cash. Page 24

GKN covers US liabilities
GKN, the UK engineering group, posted a $416m letter of credit with a US court to cover possible liabilities arising from its legal battle against franchisees of Meineke Discount Mufflers, its specialist exhausts retailer. Page 28

Cariplo poised to choose partner
Cariplo, Italy's largest savings bank, is poised to choose between Banco Ambrosiano Veneto and Banca Commerciale Italiana as its strategic partner. The outcome will create one of the country's largest banking groups. Page 25

Jones may sell stake in CWC
Jones Intercable, the US cable company, is considering selling its stake in Cable & Wireless Communications, becoming the first significant shareholder to look for an exit from the newly merged company. Page 28

Beijing Enterprises to raise HK$2.3bn
Beijing Enterprises, the investment arm of the Chinese capital's municipal government, is set to raise some HK$2.3bn ($297m) through its share offering in Hong Kong this week. Page 27

Strong sterling to hit Glaxo
UK pharmaceutical group Glaxo Wellcome achieved faster-than-expected sales growth in the first four months of the year but warned that the strength of sterling would reduce earnings for 1997 by about 5 per cent. Page 28

Barlow posts 15% rise in sales
A strong performance by international subsidiaries helped Barlow, the South African industrial group, announce a 15 per cent rise in sales at the halfway stage. Page 25

BIL to float A$220m oil trust
A A$220m (US$170m) investment vehicle, which will give investors an income stream linked to revenues from Australia's Bass Strait oil and gas fields, is to be floated on the stock market by a subsidiary of Brierley Investments, the Auckland-based investment company. Page 26

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

NEW YORK ($)			
Rises			
Amphenol A	28¾	+	2¾
Espirito Santo	18⅞	+	1⅛
Fremont Gen	30⅝	+	2
Stet Societa A	40½	+	3
Falls			
Input/Output	15⅝	–	1⅛
Western Gas	31	–	2¼
LONDON (Pence)			
Rises			
Dobbies Garden	305	+	35
Drew Scientific	189	+	26½
Silk Inds	103½	+	35
Torex	64½	+	7
Falls			
Chelsea Village	115	–	10
Gradiway	47½	–	12½
TOKYO (Yen)			
Rises			
Chugai Phar	978	+	44
Daishowa Paper	622	+	45
Kyodo Shiryo	276	+	21
Mitsukoshi	890	+	42
Toa Corp	514	+	34
Falls			
Japan Syn Rubr	900	–	63
HONG KONG (HK$)			
Rises			
Dah Sing Finl	39.5	+	1.9
China Res	22.75	+	1.15
Union Bk HK	14.55	+	0.85
Falls			
Harbour Centre	10.2	–	0.4
Nam Fong Intl	3.35	–	0.3
Nat Mutual Asia	8.3	–	0.95
BANGKOK (Baht)			
Rises			
Mutual Fund	69.5	+	6.0
Thai Carbon	99	+	9
Falls			
Amer Standard	206	–	22
Hua Thai Manf	59.5	–	8.5
Precious Ship	43.25	–	4.75
Thai OPP	34.5	–	3.75

Frankfurt, Paris and Toronto closed. New York prices at 12.30.

Spain to halve Endesa stake

October's $7bn sale will underline government confidence in market

By Tom Burns in Madrid

Spain's centre-right government has given the green light to a $7bn sale in October of more than half the equity it owns in Endesa, the country's dominant domestic power group.

The disposal, Spain's biggest so far, is worth nearly double the February sale of the remaining 21 per cent of state-owned stock in the telecommunications group Telefónica.

Merrill Lynch of the US, Argentaria, the state-controlled domestic bank, and Banco Santander, Spain's leading bank group, were yesterday appointed to co-ordinate the offer.

The extent of the sale, which will float more than a third of the group, reducing to 31 per cent the 66 per cent of Endesa owned by Sepi, the state holding company, underlines government confidence in the domestic stock market.

The Madrid stock exchange has seen a sustained rally, and the appetite of investors for equities has been fuelled by lower government borrowing and falling interest rates.

At the end of last week, the Bank of Spain cut its base lending rate to a record low of 5.25 per cent after the 12-month inflation rate fell from 2.2 per cent in March to an unexpectedly low 1.7 per cent in April.

Sepi had planned to spread the privatisation of Endesa over three years. Sources close to the disposal said its decision to sell more than half its stake in one disposal was influenced by the success of the Telefónica issue and the April sale of the remaining 10 per cent stake of state-held equity in Repsol, the oil, gas and chemicals group.

Following the pattern of the Telefónica and Repsol disposals, the bulk of the Endesa equity will be offered to the domestic markets. Spanish small savers bid 10 times the Telefónica shares they were offered, and around 40 times the number of shares they were offered in Repsol.

The government will be seeking strong incentives in the Endesa sell-off to maintain the interest of domestic savers in its privatisation programme. A central plank of the programme is the creation of a wider ownership of formerly state-controlled enterprises to promote "people's capitalism".

Endesa accounts for more than 40 per cent of domestic electricity generation and distribution, and it regularly reports the biggest corporate profits in Spain.

Under a senior management shake-up earlier this year, it is now styling itself as an integrated group open to alliances in Spain and Latin America in sectors such as water treatment, gas and telecoms.

The power group bid earlier this month for Retevisión, the planned second domestic telecoms operator, in conjunction with Italy's Stet.

Three consortia are seeking to acquire the Retevisión licence, and the government is due to announce its decision in July.

BA profits rise to $1bn despite high fuel costs

By Michael Skapinker, Aerospace Correspondent

British Airways yesterday announced annual pre-tax profits up 9.4 per cent to £640m ($1.04bn), assisted by its decision to reverse the write-off two years ago of its stake in USAir.

Operating profits fell 25 per cent to £546m, the result of high fuel prices and a £127m provision to cover the costs of a restructuring programme.

BA announced last year that it had decided to sell its 24.6 per cent stake in USAir, now renamed US Airways, ending an unhappy four-year relationship. The stake has not yet been sold. BA said in 1995 it was writing off half the £251m it had invested in USAir. It said yesterday it was writing back £125m. US Airways now has a market capitalisation of $2.28bn, valuing BA's stake at $561m.

BA said that during the past year it had received £45m from US Airways in preferred stock dividends, clearing arrears resulting from the US carrier's financial difficulties.

BA plans to form an alliance with American Airlines although the link-up has not yet received regulatory approval in the US, UK or Europe.

The airline said that under its profit-sharing scheme it was awarding its 58,000 staff a total bonus of £94m, slightly down on last year.

Mr Robert Ayling, chief executive, said the programme announced last year, of contracting out services which could be done more cheaply by outside suppliers, would yield £200m in savings in the current financial year and £600m in the year to March 2000.

Mr Ayling said last year that the airline needed to find £1bn in savings over three years. He said yesterday there would not be any further large-scale restructuring and the remainder of the £1bn would be found through reducing distribution costs and other efficiencies.

BA has already announced that baggage and cargo staff have agreed to wage freezes. The airline is selling its catering business at Heathrow, has contracted out vehicle maintenance at Heathrow and Gatwick, and has closed its handling business for other airlines at Heathrow.

It said losses at Deutsche BA were higher than in the previous year but in France operating losses at TAT and Air Liberté were almost halved.

BA's group turnover rose 7.7 per cent to £8.4bn in the year to March 31. Earnings per share were 50.8p, an increase of 14.9 per cent. The final dividend is 10.8p, bringing the full-year pay-out to 15.05p, an increase of 10.3 per cent.

See Lex, Page 22
Merger talks, Page 11

Nissan cautious over trade figures: Yoshikazu Hanawa, president of carmaker Nissan Motor, said Japan's car exports would not increase substantially in spite of yesterday's announcement of a doubling of the country's trade surplus compared with last year's figure. Picture: Reuters

Mitsubishi drops plan to list in New York next year

By Michiyo Nakamoto in Tokyo

Mitsubishi Corp, Japan's largest trading company, has frozen its plan to list on the New York Stock Exchange, highlighting the difficulty Japanese companies face in improving profitability to a level acceptable to international investors.

Mitsubishi said it no longer planned to list on the NYSE in 1998, although it wanted to do so eventually. A listing on the NYSE has been a goal of Mr Minoru Makihara, Mitsubishi's president, who sees it as necessary to be acknowledged as a truly international company.

The company had been working to improve its return on equity to 6 per cent, up from 3.5 per cent last year, to meet the standard of companies listed in New York.

However, its profitability has been under pressure in recent years and it decided that without a higher return on equity it would not be attractive to US investors. Many blue-chip US companies have double-digit returns.

Mitsubishi has decided to wait until it raises its return on equity to at least 8 per cent, a target it has set for 2000.

It also said low interest rates in Japan meant there was little advantage in raising funds in New York.

Mitsubishi's difficulty in improving its attractiveness to global investors highlights the lack of emphasis Japanese companies place on returns for shareholders. "Japanese companies have focused on keeping surplus funds within the company rather than handing it out to shareholders," Mitsubishi said. About 10 Japanese companies, including Sony and NTT, are listed in New York.

Mitsubishi suffers from high staff costs. Operating costs last year are estimated to have risen to Y220bn ($1.9bn), Y20bn more than its rival, Mitsui. Mitsubishi is expected to have a 20 per cent drop in operating profits to Y26bn.

Mr Tomokazu Soejima, industry analyst at Morgan Stanley in Japan, said Mitsubishi had not been able to improve profits in its core businesses. "Raising its return on equity to 8 per cent is more of an aim than a realistic plan," he said.

JCI and Lonrho hold talks

Shares in both rise as chiefs discuss £2bn merger

By Ross Tieman in London

Mr Mzi Khumalo, president of South African mining group JCI, yesterday met Mr Nicholas Morrell, chief executive of Lonrho, to discuss his proposals for a £2bn ($3.24bn) merger of JCI with the London-based conglomerate.

The talks took place in London after both Lonrho and JCI issued stock exchange statements confirming that discussions to identify benefits available from a combination of the groups were under way.

Shares in Lonrho, which have slumped in recent months over slow progress towards the group's planned demerger, added 5p to close at 140p. Shares in JCI, South Africa's first black-controlled mining house, added 60 cents to R48.40.

Lonrho advisers acknowledged that a merger of Lonrho's mining interests with those of JCI could offer benefits to shareholders. "It looks quite interesting," said one. "It has potential, but it depends upon the benefits to Lonrho shareholders."

JCI has told Lonrho advisers that the group's earnings could increase by a third if it were to merge with JCI. Under the proposed deal, Anglo American would swap its 25.8 per cent direct holding in Lonrho for Lonrho's 33 per cent holding in Ashanti Goldfields of Ghana.

That would enable Anglo, South Africa's biggest company, to realise its long-held ambition of increasing its influence over Africa's most profitable gold mine, while enabling it to meet an undertaking to the European Commission to reduce its holding in Lonrho below 9.99 per cent. With Ashanti worth around £340m, Lonrho's stake is worth about as much as Anglo's holding in Lonrho.

Under the strategy drawn up by SBC Warburg, adviser to JCI and Anglo, Lonrho would make a takeover offer for JCI.

Lonrho believes the driving force behind the merger is the need of Mr Khumalo to improve the quality of JCI's assets. Mr Khumalo is leading a consortium of African investors who are buying Anglo's 34.9 per cent stake in JCI.

London analysts said that while the combination of Lonrho's mining assets with those of JCI appeared to make good commercial sense, it would be difficult for the parties to reach agreement on the value of the assets.

Anglo holds key, Page 25

Coffee body warns on stocks

By Alison Maitland in London

A nearly 80 per cent rise in world coffee prices this year is likely to force coffee manufacturers to change their policy of holding minimal stocks, the International Coffee Organisation said yesterday.

Roasting companies shifted from holding substantial stocks to a "just-in-time" buying policy – purchasing coffee as demand requires – after the sharp rise in coffee prices in 1994 and 1995.

Their aim was to reduce the costly financing of large stocks. But the resulting fall in stocks, together with shortages of higher-quality arabica coffee from Colombia and central America, has left roasters desperate for supplies and driven world and futures markets higher.

Retail coffee prices have been rising rapidly. Yesterday, Folgers Coffee, part of Procter & Gamble, said in New York it was raising the price of ground coffee by 30 cents, making a total increase of nearly 50 per cent this year.

Robusta coffee on the Liffe futures market in London closed 2 per cent up yesterday after an early rise of 6.6 per cent. But New York arabica coffee futures attracted profit-taking, with the July contract down nearly 3 per cent in early afternoon trading.

Prices have been fuelled by fears of a frost in Brazil, the largest coffee producer.

But it is the tightness of stocks in roasters' hands that underlies the rally. Consumer stocks are estimated to be down to 7m-8m bags, compared with a peak of 20m bags four years ago.

The ICO, which represents producer and consumer countries, said in a report to its executive board that roasters realised their policy of operating with minimum stocks exposed them to risks.

Mr Lawrence Eagles, analyst for brokers GNI, said roasting companies had been following the latest management theories. "That may work in car parts, but it doesn't work in commodities."

Arabica coffee, Page 32

ITT sells five hotels to FelCor

By Richard Tomkins in New York

ITT, the US hotel and casino company facing a $6.5bn hostile bid from Hilton Hotels, yesterday said it had struck a deal to sell five ITT Sheraton hotels to FelCor Suites Hotels, a real estate investment trust, for $300m.

It said the cash deal was part of a strategic alliance with FelCor that would help expand the Sheraton chain. FelCor would buy hotels from other sources as well as ITT Sheraton, give them the Sheraton name and hand them over to ITT Sheraton to manage.

The move is the latest in a series of steps ITT has taken to defend itself from Hilton Hotels' $55-a-share tender offer. Previous measures have consisted mainly of asset sales which have raised $1.6bn in cash.

ITT has sold its shares in Alcatel Alsthom for $830m, its 50 per cent stake in the Madison Square Garden sports and entertainment complex for $650m, and its 50 per cent stake in the WBIS television station for $128.7m. Other assets on the block could fetch a further $2.5bn.

Under the deal announced yesterday, the group will sell some its less important properties to FelCor and help FelCor identify suitable acquisitions.

FelCor will provide the capital to make the acquisitions, put the Sheraton name on them and ITT Sheraton will run the hotels under long-term management contracts.

ITT said the deal would allow it to expand the Sheraton brand more quickly in North America than would otherwise have been the case. Mr Robert Bowman, chief operating officer, said: "This alliance allows us to focus our capital resources on destination cities with large, up-scale business hotels."

FelCor is the only US real estate investment trust specialising in all-suite hotels. These are hotels with rooms that typically include a bedroom, living room and kitchen, but which often lack some of the amenities offered by full-service hotels.

FelCor's existing portfolio includes 48 Embassy Suites hotels, a well-known US chain. Yesterday's deal, which includes three full-service Sheraton properties and two all-suites properties, takes it into the full-service sector for the first time.

Hilton Hotels' tender offer for ITT, launched in January, has become dormant because investors are unwilling to accept the $55 offer price, believing a higher offer is inevitable.

A showdown is expected later this year as the last possible date for ITT's annual meeting looms in mid-November.

ELM's grand plan comes into focus

The sluggish tobacco company has become a biotech leader, says Leslie Crawford

When Mr Alfonso Romo, chairman and chief executive of Empresas La Moderna (ELM), the cigarette manufacturer, began buying US biotechnology companies during Mexico's peso crisis in December 1994, many investors thought he had lost his marbles.

As the peso and local economy collapsed and interest rates went through the roof, Mr Romo took on $650m of short-term debt for an unorthodox spending spree.

He bought Asgrow Seed, the world's fifth largest seed production company, from Upjohn, the US pharmaceuticals giant. He then convinced George J. Ball Co. of California to merge its Petoseed division with Asgrow. Together they formed Seminis, the world's biggest vegetable seed producer, in which ELM holds a 62 per cent stake.

Although the acquisitions trebled ELM's debt exposure, it transformed the sluggish, domestically-focused cigarette maker into a multinational on the cutting edge of biotechnology, with research laboratories in 18 countries, sales in 110 and a 22 per cent share of the $1.73bn global fruit and vegetable seed market.

ELM's biotechnology ventures also brought Mexico much-needed dollar earnings at a time of great currency volatility. In 1994, 95 per cent of ELM's $761m revenues were in pesos and came from cigarette sales. By the end of 1996, its sales had grown to $1.82bn, almost half of which came from its dollar-earning fresh produce and biotechnology divisions.

While bridge loans were refinanced into longer-term obligations, Mr Romo's acquisitions continued. He bought DNA Plant Technology (DNAP) in California, specialists in genetic engineering, and Royal Van Namen, a Dutch fresh fruit and vegetable exporter. He then bought Bionova and Agricola Batiz, two companies leading the modernisation of Mexican agriculture.

But it was only this year that Mr Romo's grand design came into focus. He has created, alongside a mature cigarette business, a vertically-integrated agricultural empire which begins with the genetic engineering of new plant varieties, continues with the production and marketing of high-quality seeds, and is rounded off by a fresh produce business with an international network of distributors.

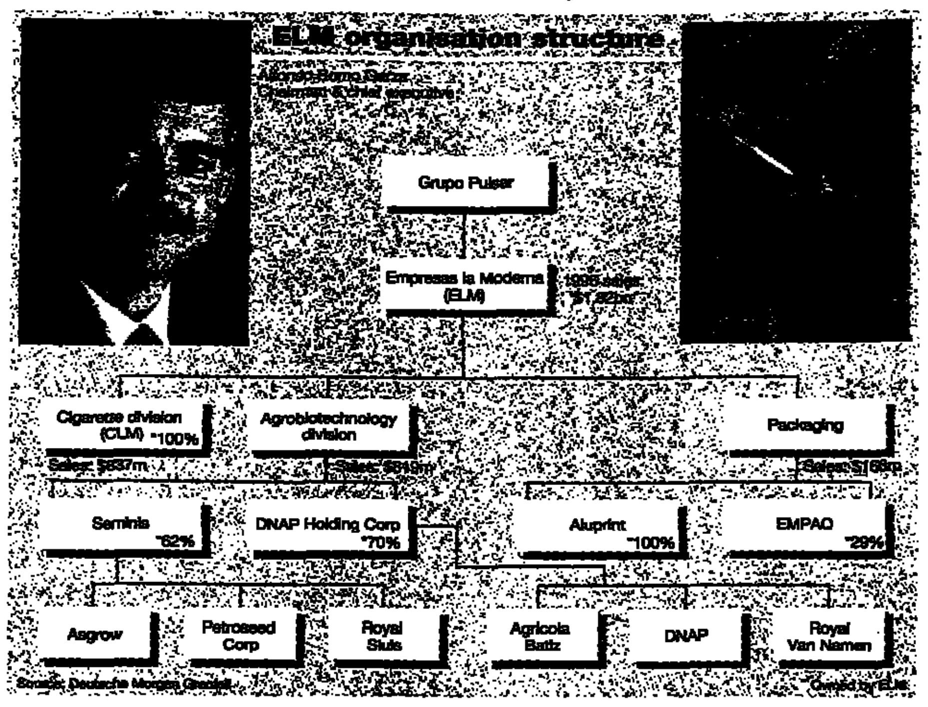
At ELM's headquarters in Monterrey, Mexico's industrial powerhouse, executives brim with enthusiasm over the potential of their new venture. While Seminis controls 39 per cent of the US seed market and 24 per cent of the European market, Latin America is virgin territory in the use of improved seeds, accounting for less than 3 per cent of the industry's global sales.

"We are aiming to create a market for our seeds in Latin America by developing fruit and vegetable varieties specifically for that region," says Mr Alejandro Rodríguez, director-general at Seminis. To this end it has located one of its biggest research stations in Chile.

"With the old breeding techniques, it could take up to 10 years to develop a new plant variety, and getting the right characteristics – higher yields, or resistance to disease – was always a hit-and-miss affair. Genetic engineering can give us results in months," he says.

Mr Bernardo Jiménez, ELM chief financial officer for the agrobiotechnology division, plans to float Seminis on a US stock exchange next year. "The public offering will allow us to reduce debt substantially," he says. Seminis may also be listed in Europe.

But ELM's biotechnology subsidiaries face different challenges on either side of the Atlantic.



The first is to get consumers to accept genetically-modified produce. DNAP is developing an "endless tomato", which in trials has stayed fresh for 90 days without refrigeration. It has bred also a virus-resistant squash and is experimenting with new varieties of Mexico's fiery peppers.

"In Europe, the influence of environmental groups over consumers will probably mean that genetically-modified produce will take longer to become accepted," Mr Rodríguez says. "In the US, consumers have shown fewer qualms, although the Food and Drug Administration must approve every new variety, and there is a big battle going on over labelling."

The FDA requires genetically-modified produce to be clearly labelled and Mr Rodríguez believes this tends to put off consumers. "Genetic mutations occur spontaneously in nature. We are only trying to replicate them under laboratory-controlled conditions. And because we aim to develop plants which are resistant to disease, the use of pesticides and fungicides is diminished, so there are health benefits to be had from eating genetically-modified produce," he says.

The second difference concerns the amount of litigation the biotechnology industry has engendered, particularly over the patenting of genes and enabling technology.

These international legal wrangles have already reached ELM. "At DNAP we were developing the long shelf-life tomato using agrobacterium [gene-injection] technology licensed from the Max Planck Institute for Plant Breeding, Germany. Then Monsanto sued Max Planck over the property rights to this particular technology. Monsanto won and forced us to stop our work," Mr Jiménez says.

With Monsanto, at least, ELM has saved itself from further litigation by entering a technology-sharing agreement, part of a deal which included the sale of Asgrow's grain seed business to Monsanto for $240m. ELM used $200m of the proceeds to pay down debt.

In retrospect, Mr Romo's interest in biotechnology is not as off-beat as it first seemed. When tobacco farming was under state control in Mexico, output and quality dwindled. Constitutional reforms in 1992, however, allowed the private sector to enter the agri-business for the first time since the Mexican revolution, and Mr Romo seized the chance.

He set up research stations in the southern state of Chiapas, and hired Yugoslav and Bulgarian technicians to work on yields and pest control. He convinced farmers to plant two tobacco crops instead of one a year, and introduced crop rotation in many areas to improve the soil. The efficiency of tobacco growers trebled, leaving land free for other uses. From this grew a fresh produce business which last year earned $200m in sales.

Nintendo helps Toys 'R' Us to 57% rise

By Richard Tomkins

Toys 'R' Us, the world's biggest toy retailer, bounced back from a weak Christmas to report a 57 per cent increase in net profits to $29.4m for its fiscal first quarter ending May 3.

Strong sales of Nintendo 64 video game products, new to some of the company's biggest markets, were a big factor in the increase, as were strong sales of toys based on the revival of the *Star Wars* movie trilogy.

Revenues rose by 17 per cent to $1.9bn and earnings per share rose from 7 cents to 10 cents, well ahead of the 8 cents expected.

But the first quarter is a poor indicator for the full-year performance because it is traditionally the company's quietest and the shares were only $¾ up at $29¾ in early trading.

In the Christmas quarter, the year's busiest period, the company saw underlying profits growth of just 7 per cent because of poor toy and game sales in the US. The company blamed a combination of weak consumer demand and shortages of the few products that sold well – notably, the Tickle Me Elmo doll and Nintendo 64 video games.

But Toys 'R' Us said the outlook for the current year was "excellent" because of an abundance of new products, including software for Nintendo 64 and Star Wars action figures. It added that in the first quarter, US stores open a year or more reported sales increases of 8 per cent.

Europe also did well, the company said, thanks to the introduction of Nintendo 64 across most of the continent.

The UK showed double-digit increases in comparable store sales.

Mr Michael Goldstein, chief executive, said plans to remodel about 56 existing stores to the company's Concept 2000 format were well under way.

This year, the company expected to open about 20 new Concept 2000 stores, five Kids 'R' Us stores and 20 Babies 'R' Us stores in the US, and 40 stores internationally.

■ The Limited, the US retailer, reported a 2 per cent rise in first-quarter net sales from $1.79bn to $1.83bn, reports Reuter from Ohio.

Net income for the first quarter of 1997 was $24.9m and earnings per share were 9 cents, including a 2 cent gain as a result of the initial public offering of Brylane, a 26 per cent-owned speciality catalogue retailer.

AMERICAS NEWS DIGEST

Doubt cast over Delgratia samples

A second Canadian exploration company has become embroiled in a salting scandal after an independent audit found "insignificant amounts of gold" at Delgratia Mining's Josh property in Nevada. The company has said it believed the property had the potential for 5m ounces of gold. But auditors found that "any gold detected beyond background amounts was introduced into the samples after they had been collected at the drill".

Mr Carl Ager, son of Delgratia president Mr Charles Ager, said: "The source [of the tampering] is not within the company. It's someone outside the company. We're basically waiting to get to the bottom of this."

He was not able to say how many people outside the company had access to Delgratia's drill samples, nor could he explain why someone outside the company would want to tamper with them.

Trading in Delgratia shares was halted on Monday on NASDAQ. Shares last traded at $12, down sharply from their peak of $34.75 in March. The stock took a beating after a Nevada mining official questioned the validity of the company's claims, its market capitalisation falling from $540m in late March to $69.6m.

A class-action suit has been filed against Delgratia for allegedly making false and misleading statements about the size of gold reserves at its Josh property. The legal action came just weeks after Bre-X Minerals' investors took to the courts after that company's Busang deposit was exposed as the largest mining hoax ever.

Scott Morrison, Vancouver

Aetna president resigns

Mr Joseph T. Sebastianelli has resigned as president of Aetna, the largest US health insurer, only nine weeks after starting the job. His move reopens the question of the succession to Mr Ron Compton, the current chief executive, who is 64. Mr Sebastianelli came to Aetna from US Healthcare, the health management organisation which Aetna bought last year for $8.9bn. His appointment was taken as an indication that US Healthcare, which has a tradition of aggressive cost management, had transformed the management culture at Aetna, and that the organisation would give increasing importance to healthcare.

Aetna's results for the first quarter, announced this month, provided strong evidence that the merger was reducing costs, with total expenses falling by almost $100m to $834.1m. Mr Sebastianelli, who will leave at the beginning of June, said: "I have found that the demands of my job and my personal responsibilities, including my family, are incompatible." Mr Compton will assume the title of president.

John Authers, New York

Schering-Plough acquisition

Schering-Plough, the US drugs company, has agreed to buy the animal health business of US chemicals group Mallinckrodt for $405m. Mallinckrodt Veterinary will be integrated into its animal health unit to form the world's sixth largest animal health business, with annual sales of about $650m. Its leading products include Ralgro, a growth-promotant implant and parasiticides Levasole and Tramisol.

Schering-Plough said the acquisition is not expected to be dilutive this year and is expected to have a positive effect on earnings in 1998 and beyond. It plans to fund the deal through internal cash flow and short-term borrowings.

AFX News, New York

Oracle unit in merger

Oracle, the world's second largest software company, confirmed that it had agreed to merge Netscape Communications' Navio Communications affiliate with its Network Computer unit. The company said it and Network Computer will retain majority ownership and Oracle will account for the deal as a purchase transaction. Netscape will retain an equity interest in the new company. Completion is subject to government approval.

The new company, Network Computer, will be a software developer for open standards-based network computers and other internet appliances and will operate under the Network Computer name in a new San Francisco Bay Area facility.

AP-DJ, California

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Cariplo in alliance with Ambroveneto

By Paul Betts in Milan

Cariplo, Italy's largest savings bank, and Banco Ambrosiano Veneto (Ambroveneto) last night agreed to forge a strategic alliance to create the largest Italian banking group after Istituto San Paolo di Torino.

The decision, which will effectively privatise Cariplo, was taken unanimously by the charitable foundation that controls the bank after a four-hour board meeting.

The foundation had to choose between competing offers from Ambroveneto and the larger Banca Commerciale Italiana (BCI). For BCI, which revised its offer at the last minute in an effort to outbid Ambrosiano, the decision is a big setback as it struggles to position itself in the rapidly changing Italian banking industry.

However, Ambrosiano had always been regarded as the favourite because its retailing operations in Italy's rich north-eastern regions complement those of Cariplo in the wealthy north-west of Italy. Ambrosiano had also been in talks with Cariplo for several months.

Mr Giuseppe Guzzetti, the Cariplo foundation chairman, said that the foundation would now open formal negotiations with Ambroveneto which would be completed during the next fortnight. "No-one believed that we would be able to advance our privatisation process in only three-and-a-half months," Mr Guzzetti said last night.

Ambrosiano, whose main shareholders include Credit Agricole of France with nearly 30 per cent, the Italian Alleanza insurance group and various regional banks in north-east Italy, is proposing to acquire Cariplo for about L6,500bn ($3.89bn) to be funded through a large capital increase. It will then form a holding company to be listed on the stock market in which the Cariplo foundation will hold a stake of about 30 per cent.

From the beginning, the foundation said it intended to retain a say in its banking interests even after forging a strategic alliance with a private banking partner.

The new holding company will control the banking interests of both Ambroveneto and Cariplo. This will create a group with deposits of about L160,000bn, second only to Istituto San Paolo di Torino which is also being privatised this week.

The new Cariplo-Ambroveneto partnership will also have the biggest network of branches in Italy with a 7.5 per cent share of the overall domestic market.

The decision last night is expected to lead to a further acceleration of consolidation in the fragmented and troubled Italian banking industry. This process is being actively encouraged by the Italian monetary authorities.

BCI had revised its bid for Cariplo at the weekend in a last-minute effort to clinch the deal. It offered to acquire immediately 25-30 per cent of Cariplo for between L2,400bn-L3,000bn, and then form a similar holding to that proposed by Ambroveneto which would have controlled both Cariplo's and BCI's banking interests.

Anglo holds key to JCI-Lonrho deal

Merger is conditional on the terms finding favour with the big South African mining group

Of the many questions raised by the merger talks between Lonrho and JCI, most could be answered by Anglo American. The South African mining giant is the single largest shareholder in Lonrho, and at least until the end of this month, retains effective control of JCI.

If the merger goes ahead, it is likely to be on condition that Anglo takes control of Lonrho's stake in Ashanti Goldfields of Ghana, Africa's most profitable gold producer.

Exactly why the merged company should be prepared to surrender its most prized asset has sparked intense speculation in Johannesburg financial circles. The explanation may lie in the small print of Anglo's agreement to sell its controlling stake of 34.9 per cent of JCI to the African Mining Group, a consortium of black investors led by Mr Mzi Khumalo.

"I think Mzi would dearly love to hold on to Ashanti, but it's obvious that Anglo has been in on the whole scheme from the beginning," says Mr Keith Bright, mining house analyst at ING Barings in Johannesburg. "There are all sorts of conditions attached to the sale of JCI, and I think they needed Anglo's sanction to go ahead."

For Anglo, the merger could provide an opportunity to dispose of its stake in Lonrho. In October, Anglo paid £257m ($421m), a premium of about £100m on the current market price, for the 18.5 per cent stake held by Mr Dieter Bock, the German financier and Lonrho's former chief executive.

Mr Julian Ogilvie Thompson, Anglo chairman, indicated then that Anglo had "no intention of making a general offer for Lonrho" and that it supported Mr Bock's plan to separate Lonrho's mining and trading interests.

But its goal of acquiring Lonrho's 33 per cent of Ashanti was placed in jeopardy last month by the European Commission, which ruled that Anglo's shareholding would create excessive concentration in the world platinum market.

On the strength of this concern – which is confined to Anglo's influence over Lonrho Platinum – the EC has limited Anglo's voting interest in Lonrho to 9.99 per cent, and ordered it to dispose of the balance of its shares.

In the past three weeks, SBC Warburg, which advises both Anglo and JCI, has been ordered to devise a strategy to cut Anglo's losses. Over the same period, the investment bank has also been called upon to rescue the sale of JCI, following a sharp drop in its shares this year. A merger with Lonrho could remedy both problems.

Mr Khumalo, who took over as JCI chairman in February, has struggled to finance the acquisition. This year's slump in bullion prices has resulted in a fall in the Johannesburg gold index, and caused JCI shares to fall from their November level of about R49 to R42.80 on Friday. The company's new owners are pledged to pay R54.50 a share, with a first payment of R2.4bn due on May 26.

The high political profile of the sale, which will create South Africa's first black controlled mining house, made it almost inconceivable that the deal could flounder. Although many local institutions shunned the acquisition, the financing was eventually secured via a rights issue at Saflife, an insurance group that is part of Mr Khumalo's financial services empire.

The biggest underwriter is SBC Warburg, which contributed R750m to an underwriting syndicate that includes Southern Life, an Anglo subsidiary. After a poor March quarter performance from JCI's gold mines, Mr Khumalo is under intense pressure from his backers to rescue JCI's share price.

On the basis of the current assets of Lonrho and JCI, a merger could create a £2bn mining group listed in London and Johannesburg with interests spanning gold, coal and platinum. In particular, a merger of Lonrho's Duiker coal with Tavistock, JCI's coal subsidiary, would create a formidable force in the South African coal industry with annual capacity of more than 18m tonnes.

LONRHO

Gold	
Ghana (Ashanti 33%)	1m oz
Zimbabwe	176,000 oz
Coal South Africa (Duiker)	8.9m tonnes
Platinum South Africa (Lonrho Platinum)	1.09m oz

JCI LIMITED

Gold	
South Africa (Western Areas, Randfontein Estates, H.J. Joel, Lindum Reefs)	1.6m oz
Coal South Africa (Tavistock Collieries, Consolidated Collieries)	9.5m tonnes
Chrome South Africa (Consolidated Metallurgical Industries)	380,000 tonnes

Source: Annual reports

This would double JCI's capacity and warrant a re-rating of the shares, which analysts say could eliminate the substantial discount between JCI's market value and the price offered by the African Mining Group.

Lonrho, which is also undervalued relative to its net asset value, could also benefit from the re-rating: "These assets would get a higher rating in London than they do in Johannesburg," a Lonrho spokesman said. "There is potentially an advantage for Lonrho."

However, many Johannesburg analysts speculate that a merger could be confined to the coal interests and may entail disposals of other Lonrho subsidiaries.

Next to Ashanti, which could be earmarked for Anglo, Lonrho's next most valuable business is platinum. Impala Platinum, a subsidiary of Gencor, claims it has first right to buy Lonrho Platinum if there is a change of control at Lonrho.

Although a merger between the two platinum companies, which own adjacent mines, was vetoed by the EC last year, Impala claims the first right predates the jurisdiction of the EC competition authorities.

"I think it would be very difficult to structure a merger with JCI without invoking our first right," said Mr Kobus Möller, Impala finance director.

Mark Ashurst

Overseas sales lift Barlow at halfway

By Mark Ashurst in Johannesburg

A strong performance from international subsidiaries helped Barlow, the South African industrial group, announce a 15 per cent rise in sales at halfway.

Turnover from international operations increased 31 per cent to R3.6bn ($805m), which largely offset a decline in margins at the South African businesses. Local turnover was 7 per cent higher at R5.7bn.

Operating profit increased 13 per cent to R488m in the six months to March 31. Earnings per share after exceptional items rose from 142.5 cents to 145 cents. The interim dividend was 36 cents a share, compared with 33 cents previously, in spite of an increase in the number of shares in issue.

Mr Warren Clewlow, chairman, said the performance of South African subsidiaries had been curtailed by "a disappointing lack of implementation of much-needed public sector fixed investment programmes."

Earnings in foreign currencies contributed 34 per cent to group earnings, which analysts said added to the group's attraction as a rand hedge. Demand for materials handling equipment had declined from last year's peaks in the UK and the south-eastern US. Demand for capital equipment in Spain and Portugal remained strong, although margins declined.

EUROPEAN NEWS DIGEST

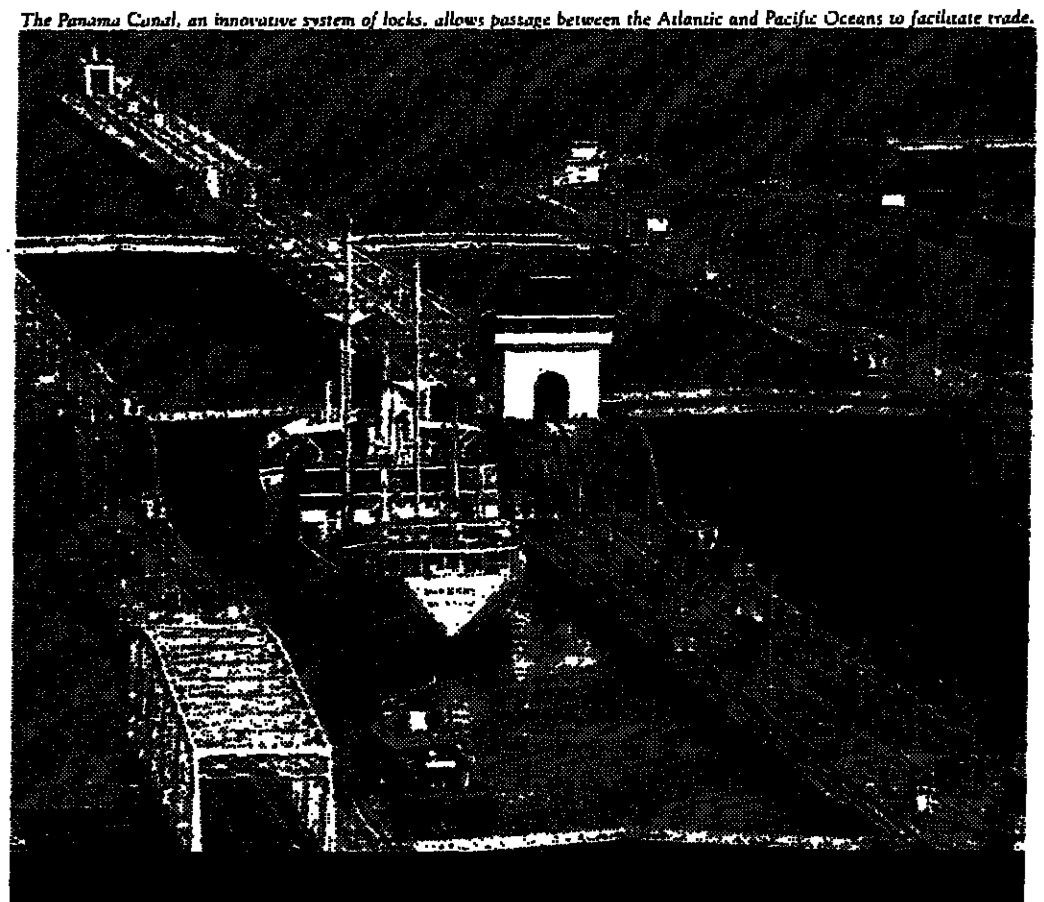
CLT-Ufa silenced on Pro Sieben float

A court in Hamburg has issued an injunction against CLT-Ufa, the pan-European media company, ordering it to stop spreading information within the German press relating to the forthcoming stock market flotation of Pro Sieben, the country's third-biggest commercial TV network. The information, which Pro Sieben said had been distributed to business and media journalists, offers a negative interpretation of the DM1bn ($590m) flotation of 17.5m non-voting preference shares next month by the Munich-based network, which is controlled by KirchGroup, one of Germany's largest media companies. Mr Georg Kofler, Pro Sieben chief executive, said CLT-Ufa's actions were "shameful" and a clear case of unfair business practices.

The injunction is the latest step in an aggressive battle for control of German commercial television between Kirch and the media group Bertelsmann, which owns half of CLT-Ufa. Over the past year there have been several acts of litigation between Kirch and CLT-Ufa over the fate of Premiere, a pay-TV channel in which both are shareholders. *Frederick Stüdemann, Berlin*

DSW focuses on magnesium

Dead Sea Works, a subsidiary of Israel Chemicals, has reported a strong rise in sales and profits for the first quarter. The business is moving more towards producing and exporting magnesium, which will be the group's main engine for growth. Revenues totalled Shk341.4m ($100.8m) compared with Shk288.4 over the same period the previous year, while net profits edged up from Shk35.5m to Shk37.3m, with potash production DSW's principal earner. However, the construction of a new $470m magnesium plant in which Volkswagen, the German car manufacturer, holds a 35 per cent stake, could significantly change the profile of the company. VW will be DSW's first main customer, but DSW wants to sell the metal to General Motors and Chrysler, the US car manufacturers. Last year, DSW had net profits of Shk129m on sales of Shk1.1bn. *Judy Dempsey, Jerusalem*



Japanese builders worry over demand

By Bethan Hutton in Tokyo

Japan's largest construction companies have sounded notes of caution about the current year, as government spending on public works continues to decline.

The companies reported a mixed set of results for last year.

Obayashi, the Osaka-based general construction company, reported a 16.4 per cent rise in after-tax profits to Y12.68bn ($109.9m), although recurring pre-tax profits slipped to Y29.42bn after a Y7.5bn write-off of property losses and Y4.2bn of losses on its securities portfolio. Sales were up 23.7 per cent to Y1,510.6bn. The construction division was particularly strong, with sales up 34.9 per cent; but civil engineering was weaker with just 2.5 per cent growth.

Taisei, a Tokyo-based general contractor, announced an 11 per cent rise in after-tax profits to Y10.02bn, and a 2.8 per cent increase in recurring profits to Y26.1bn. Taisei said the healthy figures were due to cost-cutting measures, capital gains from selling securities, and reduced interest costs after cutting interest bearing debts by Y106bn to Y616.3bn.

Kajima, a family-controlled contractor also based in Tokyo, reported a 10.1 per cent rise in sales to Y1,602bn, and recurring profits up 8.9 per cent to Y25.1bn. But after-tax profits fell 0.2 per cent to Y10bn, due to an asset write-down at a European unit.

Dividends at all three companies were unchanged. First-half figures were boosted by the September 1996 deadline for building orders, to avoid the increase in consumption tax from April 1 this year. Orders have not fallen as much as expected after the deadline.

Mr Simon Atkinson, analyst at SBC Warburg in Tokyo, comments: "In September 1996, industry-wide orders were incredibly strong. There were several weak months after that, but by March 1997 the orders figure was quite strong again."

Government spending on public works continues to decline, as projects stemming from stimulus packages come to an end. Moreover, margins on public sector contracts may tighten if the government continues its attacks on the widespread "dango" groupings, which organise construction bid-rigging.

"The situation on the public side is bad and getting worse. But for the big four contractors at least reliance on the public sector is not that strong," said Mr Atkinson.

All the companies were cautious in outlook. Kajima forecasts a 12.2 per cent decline in recurring profit to Y22bn, on sales down 6.5 per cent, and a 0.2 per cent decline in after-tax profit.

Obayashi is expecting a 4.7 per cent drop in sales to Y1,440bn, and a 1.4 per cent drop in recurring profit, but it sees after-tax profit improving 2.5 per cent to Y13bn. Taisei projects lower sales, down 4.2 per cent to Y1,500bn, but recurring profits up 3.4 per cent to Y27bn, and after-tax profits up 9.8 per cent at Y11bn.

BIL to float A$220m oil trust

By Nikki Tait in Sydney

A new A$220m (US$170m) investment vehicle, which will give investors an income stream linked directly to revenues from Australia's Bass Strait oil and gas fields, is to be floated on the stock market by a subsidiary of Brierley Investments, the Auckland-based investment company.

The new vehicle – Bass Strait Oil Trust – will hold the "Weeks royalty", which derives from the 2.5 per cent royalty stream which BHP, the Australian resources group, granted to the late Dr Lewis Weeks after he played a role in discovering the Bass Strait oil.

The royalty stream has since been divided, so that the Weeks royalty now comprises a 55.11 per cent share of the royalty payments made by BHP and Esso, the two main operators in the Bass Strait.

Royalties have been paid for 25 years under the agreement, and a report by Wood Mackenzie, the stockbroking firm, suggests that over the next 10 years the income of the Bass Strait Oil Trust should range between A$31m and A$38m a year. This calculation is based on an oil price of US$20.50 per barrel for Tapis crude.

Units in BSOT will be sold at A$5 apiece, and have a 10-year life. During this period, in addition to paying out the proceeds of the Weeks royalty, they will also be progressively redeemed through 20 half-yearly capital redemption payments.

BIL claims that the tax and financial packaging will allow the units to pay a yield of up to 10.5 per cent a year over the 10-year term, for highest-rate taxpayers.

BIL will continue to own "residual" units in the trust, which will be entitled to all non-royalty income, and to the Weeks royalty income once the ordinary units have been repaid.

BIL acquired rights to the royalty when it took over Australian Consolidated Investments in 1992. It has since held, and concluded, various negotiations with the Bass Strait partners over the royalty.

Yesterday, BIL said that the royalty had had a book value of A$265m when acquired, but that it had now been assigned to BSOT for A$394m.

The latter figure is made up of the A$220m which the current issue is expected to raise, plus a A$174m consideration for the residual portion.

The New Zealand-based company declined to outline any specific plans for the funds raised, beyond saying that there was "logic" in assuming that they would be directed at investments in Australia or debt reduction.

Bass Strait, an area which lies between Tasmania and Victoria, is one of the largest oil-producing areas established in Australia.

Strong demand for Colonial shares

Shares in Colonial, the second large Australian life company to "demutualise" in recent times, saw stock surge 21 cents over the institutional sale price when trading began yesterday morning, *writes Nikki Tait in Sydney*.

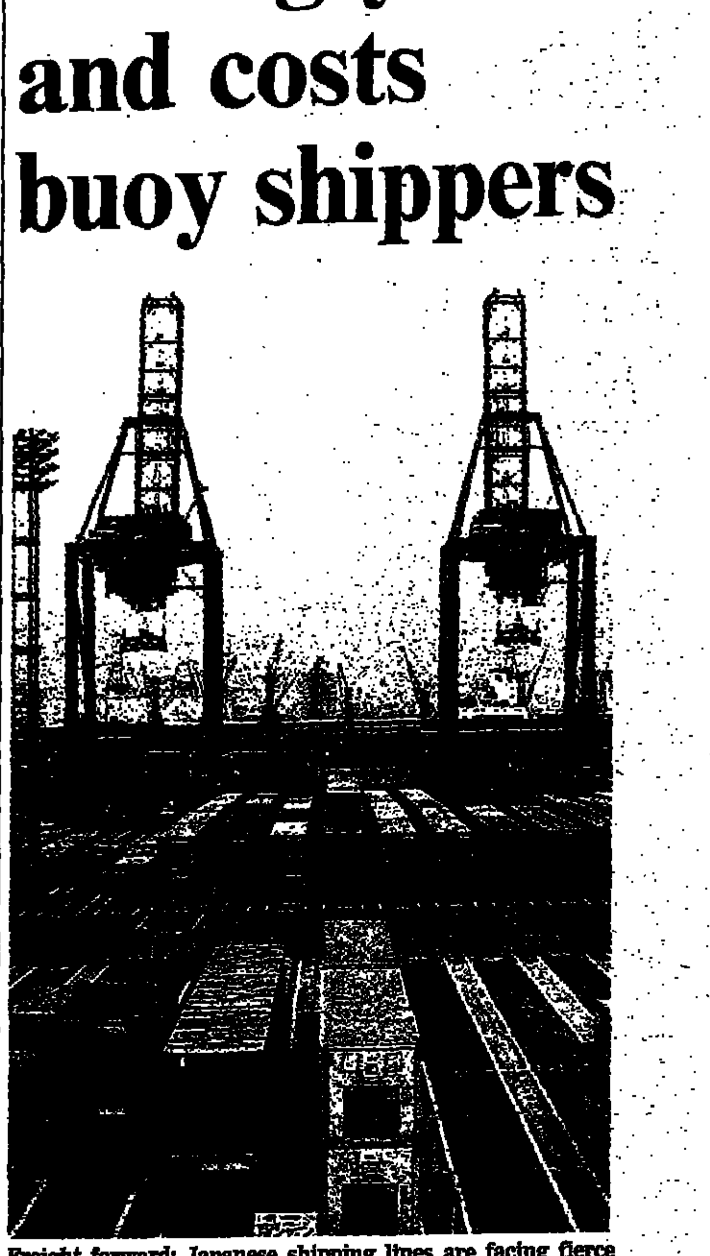
On Sunday, Colonial set the institutional offer price at A$3.10, compared with yesterday's closing price of A$3.31, following a period of bidding in the previous week. Private investors, meanwhile, had been offered the shares at A$2.60.

Demand was extremely heavy, and allocations were cut back to 350 shares (with stapled options) per person for the general public.

Existing shareholders and customers – that is, policyholders and customers of Colonial's banking and fund management arms – were offered 550 units each.

The higher-than-expected premium means Colonial's 102,000 UK policyholders who elected to sell prior to the listing would have done better to have sold in the market yesterday. Colonial had 255,000 qualifying UK policyholders, who each received a minimum of 225 shares. About half received 1,000 shares or more. At yesterday's price levels, Colonial is capitalised at about A$1.9bn (US$1.4bn).

Falling yen and costs buoy shippers



Freight forward: Japanese shipping lines are facing fierce competition, particularly on American and European routes

By Michiyo Nakamoto in Tokyo

Japan's leading shipping companies have reported better results for the past year, buoyed by a weaker yen and cost-cutting measures in the face of fierce competition in the global shipping market and a fall in freight rates.

Mitsui OSK Lines, which derives 70 per cent of its revenues in foreign currencies, saw sales exceed Y500bn for the first time in 12 years to Y539.5bn ($4.67bn), an increase of 13.8 per cent from the previous year's Y473.9bn. The company benefited from an uplift in Japanese car exports caused by the weaker yen.

Recurring profits improved from Y5.3bn to Y8bn, while net profits came to Y2.2bn compared with a loss of Y494m previously. Mitsui, however, passed its dividend. The company is forecasting a further rise in sales this year to Y570bn, recurring profits of Y11bn and net profits of Y5.5bn and is considering resuming dividend payments this year for the first time in four years.

Nippon Yusen, the largest Japanese shipping company, suffered fierce competition, particularly on the North American and European routes, but also saw increased demand from Japanese car exporters in the second half. The weak yen and cost-cutting helped the company lift sales 12 per cent to Y581.7bn while recurring profits rose 16 per cent to Y16.6bn and net profits grew from Y2.6bn to Y7.2bn.

Kawasaki Kisen saw a slight increase in sales from Y328.1bn to Y348.6bn but recurring profits fell 29 per cent in the face of a sharp fall in freight rates in its liner business. Asset sales bolstered net profits to Y1.8bn, compared with Y1.6bn. Navix Line saw sales drop slightly from Y134.7bn to Y133.4bn but managed to achieve profits that met or exceeded expectations in most of its business divisions. It enjoyed a 27 per cent rise in recurring profits to Y3.6bn and an 18 per cent rise in net profits to Y1.2bn.

The liquidation of a subsidiary operating passenger ships damped results at Showa Line where sales fell 10 per cent to Y75.8bn while recurring profits improved to Y609m from Y500m. However, an extraordinary loss on the liquidation deepened its net loss from Y1.7bn to Y4.5bn.

ASIA-PACIFIC NEWS DIGEST

Pacific Ports deepens losses

Pacific Ports, the port operating arm of Hong Kong's Fairyoung Holdings, saw its net losses increase 52 per cent to HK$16.98m (US$2.2m) in its first results announcement as a listed company. The company, which listed on the Hong Kong stock exchange last month, calculated its pro forma net loss for 1995 as HK$11.23m. Losses per share over the same period grew from 1.9 HK cents to 2.8 HK cents. There is to be no dividend payment.

However, Pacific Ports offered an upbeat review of its port projects. Developments in China's Nanjing and Suzhou are on track to benefit from increased cargo volumes following Beijing's move to relax its previously tight credit policy. "Moreover, if the re-entry of China into the World Trade Organisation turns out to be fruitful, the cargo volume growth will probably be further stimulated," added Mr John Chan, chairman.

Two preliminary agreements were signed in March to invest in container and general cargo terminals in Wuhan, a pivotal point for Yangtze River traffic. Negotiations are under way for projects in other parts of Asia, particularly Taiwan. *Louise Lucas, Hong Kong*

Nikon profits fall

Nikon, the maker of cameras and semiconductor manufacturing equipment, unveiled a 12 per cent drop in recurring profits as high capital investments and R&D costs to keep pace with the rapid advances in semiconductor technology damped profitability despite higher sales. Sales rose 14 per cent to Y295.8bn ($2.5bn) but recurring profits fell from Y18.9bn to Y16.5bn. Net profits rose 18 per cent to Y9.5bn. The company, which derives 61 per cent of revenues from semiconductor-related equipment, has had to invest significant amounts into R&D to keep pace with the industry's rapid shift to more advanced technology as it faces a sharp decline in the profitability of current generation products.

■ Olympus, the camera manufacturer which is also a significant maker of endoscopes, posted a firm 21 per cent rise in group sales to exceed Y300bn for the first time at Y310.5bn ($2.69bn). Pre-tax profits, however, fell 18 per cent, largely because of a change in accounting rules for foreign exchange conversion. Profits fell from Y6.9bn to Y5.7bn and net profit was up 14 per cent to Y2.3m. *Michiyo Nakamoto, Tokyo*

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Beijing Enterprises prices issue

By Louise Lucas in Hong Kong

Beijing Enterprises, the investment arm of the Chinese capital's municipal government, is set to raise some HK$2.3bn (US$297m) through its share offering in Hong Kong this week.

Shares in the new company were priced at the top end of the projected range after strong institutional demand was shown during the roadshows. The listing comes in the wake of a flurry of issues from red-chips, or mainland-backed companies seeking Hong Kong listings, virtually all of which have been heavily oversubscribed.

Beijing Enterprises, which holds a tourism franchise to the Great Wall of China, yesterday priced its scrips at HK$12.48 a share. A tranche of 135m shares has been placed with institutional investors, and is said to be "dozens of times" subscribed. Hong Kong retail buyers will be offered 15m shares from today while a posse of strategic investors is taking an aggregate 36m shares.

These investors include units of Hong Kong-listed companies Cheung Kong Holdings, New World Development and Shanghai Industrial, the company which heralded the wave of Chinese cities seeking listings exactly one year ago. Peregrine Investments and Morgan Stanley, the sponsors to the issue, are also among those taking a stake.

The issue price represents a price earnings multiple of 19.3 times on a fully-diluted basis. Profits for this year will be a minimum HK$350m, the company forecasts.

Proceeds from the issue will be used to upgrade services at the Great Wall, expand the company's brewery and food arm, and enhance its Jianguo Hotel.

A slim portion has also been earmarked for future acquisitions in hotels and infrastructure, raising the possibility of asset injections – a trend among the red-chips which has done much to send prices spiralling in the secondary market.

Dealing in the shares is scheduled to begin on May 29.

Sanwa breaks new ground in securitisation

When Sanwa set out last autumn to become the first Japanese bank to sell some Y30bn ($260m) of its bad property loans to domestic life insurance companies as securities, it suspected it faced a difficult marketing task.

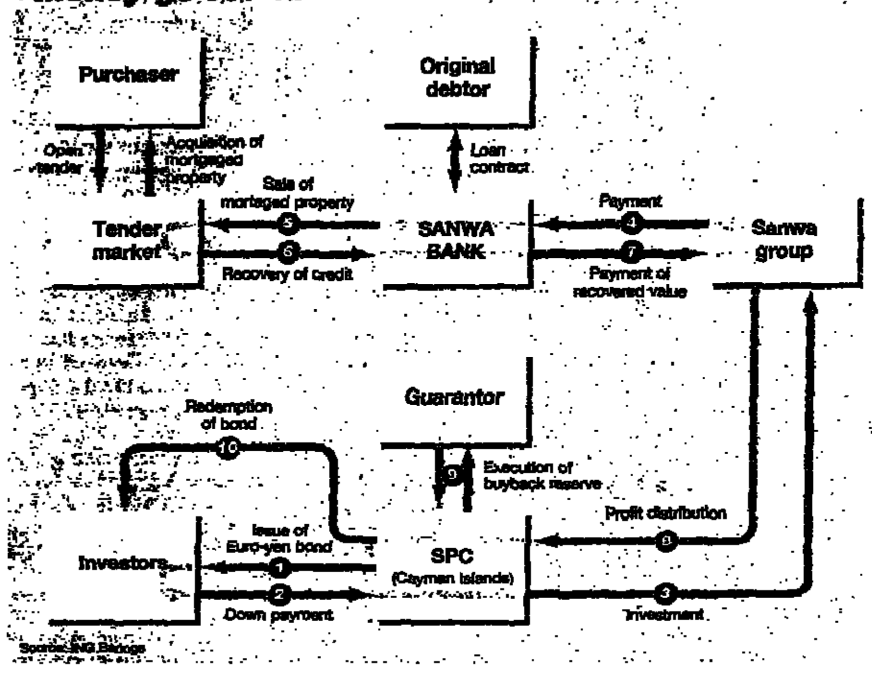
In the event, the deal proved more than simply tortuous. The potential investors demanded four months to conduct due diligence on the 50-odd Tokyo properties that formed the core of the deal. And even then, some remained so nervous about how the deal might be perceived by policyholders that they kept it discrete.

Although the country already has a Y5,000bn market in the securitisation of various products, no Japanese bank has previously managed to turn its bad loans into securities in a way that allows them to remove the bad debt from the balance sheet and sever all further liabilities.

Consequently, the move has triggered a flurry of interest. If copied elsewhere, it could provide a way for the country's banks to tackle their mountains of property-related bad debts.

However, it is uncertain whether Sanwa's move is a one-off gesture, or will be copied by other banks in a way that could allow Japan's nascent securities market to develop.

Money-go-round



Source: ING Barings

There are plenty of banking observers who hope it will be repeated. The Bank of Tokyo Mitsubishi, for example, has conducted an innovative loan participation agreement this spring. Though not quite a securitisation, it took some Y5bn of bad loans off its balance sheet by moving the liability for the loan from the bank to a foreign investor.

Nomura, which has extensive experience in the US securitisation market, is also seeking opportunities in Japan.

And interest among foreign banks in arranging securitisation deals is rising – not least because of the potential for lucrative fees.

Bankers Trust, the US group, concluded a business tie-up last month with the ailing Nippon Credit Bank, and Goldman Sachs is visibly trying to market its skills in Tokyo.

But behind the excitement, the practical experience of groups such as Sanwa and Bank of Tokyo Mitsubishi suggests that the obstacles to rapid growth in the securitisation market remain formidable.

Part of the problem is the complexity of the regulatory and tax framework. Sanwa, for example, only discovered it would not be taxed on its first deal several months after it had concluded it.

And to avoid local restrictions, it was forced to use a special purposes company based in the Cayman Islands to issue the bonds.

Reforms are being discussed to solve some of these problems.

Even if these difficulties are resolved, the other huge uncertainty is the level of investor interest. Sanwa Bank, for example, only sold its loan at some 15 per cent of face value.

Strong groups such as Sanwa and Bank of Tokyo Mitsubishi can take these losses, but the weakest Japanese banks with the largest amount of bad loans are not as well placed to follow – not least because many still hope that a rise in property prices could bail them out. As one banker explains: "There are not very many managers in Japanese banks at the moment who want to become personally responsible for a big loss."

On the investors' side, many of Japan's large life insurance groups already have experience of purchasing securitisation instruments in the US, but the 1980s property crash has left most investors terrified of touching anything related to property or bad loans.

This may change – not least because of the dire shortage of other attractive investment instruments in Japan. But many bankers suspect the big impulse for any development of the securitisation market may need to come from overseas.

Developing the market may be difficult: much of the property held by the banks is land, not buildings, and thus is less likely to yield a steady source of income. Information about the Japanese property market is notoriously opaque and foreign investors' expertise is small.

Tokyo and Mitsubishi's loan participation agreement was only worth Y5bn, and though Sanwa hopes to conclude a second Y30bn deal with a foreign investor soon, it has yet to settle a price.

Gillian Tett

Burns Philp to sell lossmaking foods concerns

By Nikki Tait in Sydney

Shares in Burns Philp, the troubled Australian food ingredients company, jumped more than 7 per cent yesterday after the group announced it intended to sell its spice businesses and industrial food services in North America and Europe and implement management changes.

Burns said it had appointed Barings to sell the lossmaking units. It would consider selling them either separately on a geographic basis or together to a single buyer.

"A number of the world's largest food companies have previously expressed an interest in acquiring some or all of these businesses," it said.

The businesses for sale range from Durkee-French and Tone's to British Pepper & Spice, Euroma and Ostmann. According to Burns, the businesses incurred a pre-interest loss of A$31.7m (US$24.6m) in the first nine months of 1996-97. It expected them to improve in the final three months, but "still fall short of the result achieved in the fourth quarter of 1995-96".

Burns said the disposal would leave it free to concentrate on its yeast business, which has annual sales of about A$1.2bn and is profitable. It also announced that Mr Ian Clack, managing director, was retiring, and that it was searching for a replacement.

The group had made a A$24.4m loss after tax in the third quarter, on sales of A$453m. This brings revenues for the first nine months to A$1.49bn, with profits after tax standing at A$26.6m. Burns warned that the carrying value of all assets would be considered at the year-end and that this might involve some write-offs or write-downs.

Shares in the company were suspended ahead of the announcement, but surged 13 cents higher to A$1.98 after the news was released.

Effect of Zantac's US patent expiry talked down

Glaxo Wellcome in 10% sales advance

By Roger Taylor

Glaxo Wellcome said yesterday it had achieved faster than expected sales growth in the first four months of the year but warned that the strength of sterling would reduce earnings for 1997 by about 5 per cent.

Talking at yesterday's annual meeting, Sir Richard Sykes, chief executive, said he remained confident the company would quickly replace sales lost following the expiry of the US patent on its biggest selling drug, Zantac, next month.

Sales in the four months to April 30th were £2.75bn, 10 per cent up on last year in constant exchange rate terms. Excluding Zantac, which dropped 7 per cent, sales were up 15 per cent.

Sir Richard said Zantac now only accounted for 20 per cent of group turnover, down from 30 per cent two years ago. Respiratory products had become the largest single therapy area for the company with asthma drugs Flixotide and Serevent. Analysts said the sales figures were ahead of expectations but left forecasts of 0-2 per cent earnings growth for the next two years unchanged. The impact of sterling had been anticipated, they said.

Addressing the concern of animal rights activists who attended the meeting, Sir Richard said the company had decided not to give new business to Huntingdon Life Sciences, a contract research company, pending a Home Office inquiry into its treatment of animals.

The company's shares dropped 31½p yesterday to £12.51½ but this reflected a downturn for the whole sector. SmithKline Beecham fell 34p to £10.19½p and Zeneca closed down 42p at £19.26½p.

Analysts said this was due to profit taking after a very strong run in the sector. Glaxo Wellcome's shares have risen by more than 50 per cent since the last annual meeting.

Mr Anthony Colletta at brokers Hoare Govett said: "We believe the re-rating is now over - the sector remains a safe haven for investors."

Sir Richard takes over as chairman from Sir Colin Corness following yesterday's meeting. He will also remain chief executive until Mr Sean Lance, chief operating officer, takes over no later than at next year's annual meeting. Sir Roger Hurn has been appointed non-executive deputy chairman.

LEX COMMENT

Aim

Just weeks short of its second birthday, the Alternative Investment Market has grown into an undoubted success. Not surprisingly, there have been some spectacular share price crashes, even some failures – three companies have been delisted, of which one has since gone into receivership. But London's junior market now boasts nearly 280 companies, which between them are capitalised at almost £6bn and have raised £1.2bn in new money. Some of those, including Financial Publications and Abacus Recruitment, have seen their shares rise more than sixfold.

In that context, yesterday's updated admission rules from the Stock Exchange are a bit of tinkering rather than a fundamental overhaul. They should improve transparency and encourage more rapid disclosure of market-sensitive information. And, rightly, the exchange is putting the onus on companies' nominated advisers and brokers not only to handle a client's flotation properly but also to monitor ongoing performance. This is particularly important for blue-sky stocks, where investors have little to base decisions on except the illustrative financial projections in the prospectus – often not worth the paper they are written on.

If there is a criticism, it is that the exchange has, so far, been slow in censoring the worst offenders. Aim's success is largely based on flexibility and light regulation. A bit of public humiliation might therefore be a more effective regulatory weapon than a batch of new rules.

US shareholder first to seek exit from CWC

By Christopher Price

Jones Intercable, the US cable company, is considering selling its stake in Cable & Wireless Communications, becoming the first significant shareholder to look for an exit from the newly merged company.

The 2.5 per cent stake would be worth £120m on the open market, although Jones is likely to seek more from prospective buyers seeking a strategic stake in the company. CWC was formed from the merger of Mercury, the telecoms business of Cable and Wireless, and the UK cable groups Nynex CableComms, Videotron and Bell Cablemedia.

This joining of the UK's second largest telecoms group and companies representing about 40 per cent of the cable industry has presented British Telecommunications with its stiffest challenge in its dominance of UK telecoms. However, CWC shares, which began trading three weeks ago at 300p, have drifted despite the strong rise in the London market. Yesterday they fell 5½p to close at 276½p.

Analysts have blamed the lacklustre performance on the Jones stake overhanging the market. "It has been well known that they have wanted to exit quickly, so it's hardly surprising the shares have movedthe way they have, with this kind of situation," said one.

However, others have said the stock has suffered from the continuing poor reputation with investors of the cable industry and the development of digital terrestrial services by the newly formed British Interactive Broadcasting.

Jones, which is based in Colorado, confirmed the likely sale of its CWC stake. "It is definitely an option we are looking at," the company said on Friday.

C&W is likely to be interested in increasing its 52 per cent stake.

Nynex Corp and Bell Canada, which between them have more than 32 per cent of CWC, are thought unlikely to increase their holdings as both groups have already invested heavily in the lossmaking cable industry. They are also thought likely to realise some of their investment through share sales.

Shield gains new test agreement

By Roger Taylor

Shield Diagnostics, the loss-making biotechnology company has been granted an exclusive licence to develop a test for thrombosis based on technology developed by the University of Glasgow.

Shield will attempt to commercialise a new method for measuring homocysteine, an amino acid found in the blood, which has been identified with a higher risk of thrombosis, leading to heart attacks or strokes.

The company said: "Once identified the condition is easily treatable with dietary supplements. But currently the measurement of homocysteine is carried out using expensive equipment and requires specialised expertise."

Shield hopes to be able to launch a new simpler test early in 1998 which could become a standard part of blood testing. However it faces competition from others in the field, in particular Axis Biochemicals of Norway which has developed its own homocysteine test.

GKN covers US liabilities

By Tim Burt

GKN, the engineering group, yesterday posted a $416m (£258m) letter of credit with a US court to cover possible liabilities arising from its legal battle against franchisees of Meineke Discount Mufflers, its specialist exhausts retailer.

The company – convicted last year of defrauding some 2,500 Meineke franchisees – was ordered to issue the credit letter following a special court hearing in Charlotte, North Carolina, two weeks ago.

At that hearing, Judge Robert Potter warned GKN that failure to comply would force him to lift a "stay of execution" on a damages and compensation award totalling $601m.

Judge Potter imposed the award after a jury decided the UK group had diverted payments by Meineke franchisees intended for advertising and promotion.

Although lawyers for the franchisees have vowed to seek the full $601m, GKN reiterated yesterday that the final amount could be reduced by more than 30 per cent because many franchisees signed releases waiving their right to compensation.

It has already announced a £270m provision to cover a reduced liability calculated at $400m-$450m.

The company, moreover, said the letter of credit would have no impact on its cash reserves – which stood at £528m at the end of last year – and would not hamper its proposed $570m acquisition of Sinter Metals, the US manufacturer of powder metal-based components.

It is also planning to appeal against the district court's ruling, a process that could delay any compensation payments by up to a year.

The appeal cannot be filed, however, until Judge Potter has ruled on post-trial motions.

The shares fell 5p to 949½p.

Hitachi in London first

By Charis Gresser

David Anthony: leading HCUK to the London market

Hitachi Credit UK, the credit finance company, is to become the first Japanese company to float on the London Stock Exchange when it comes to market later this summer.

Hitachi Credit UK is expected to raise between £15m ($24.3m) to £20m of new money via an institutional placing, which would give the company a market value of up to £50m.

HCUK is a wholly owned subsidiary of Japan's Hitachi Credit Corporation, which will own a 60 per cent stake in its UK subsidiary after flotation.

Although some institutions are cautious about investing in companies where there is a majority shareholder, Mr David Anthony, general manager of HCUK, said Hitachi's 60 per cent stake was key to the company's competitive edge: "It enables us to raise funds on very fine terms, and that's our stock in trade, our raw material."

Hitachi Credit Corporation has an AA rating and the parent company, Hitachi, has a AAA rating. Mr Anthony reckons that if Hitachi were to reduce its stake significantly, HCUK's cost of capital could jump between 50 and 75 basis points. HCUK operates in four main sectors: business credit, retail credit, contract hire and insurance. Established in 1982 the company last year reported a pre-tax profit up 34 per cent at £3.7m, on turnover of £51.9m.

The flotation will nearly treble shareholders' funds, so improving the company's capital base, said UBS, which is the sponsor and broker to the issue.

The flotation will also allow the company to take advantage of any acquisition opportunities. HCUK is expected to list in early July.

State Street unit appoints head

By William Lewis,
Investment Correspondent

Mr Ken King, formerly head of emerging markets at Kleinwort Benson Investment Management is to join State Street Global Advisors, the asset management group of State Street, the US bank.

He will be managing director of King Street Advisers, a new London-based asset management company specialising in emerging markets investing.

SSGA will have majority ownership of King Street and will provide markeing and operational support. The new firm will be part of SSGA Global Alliance, a unit created earlier this year to develop new businesses offering non-traditional investments.

Mr King recently resigned from KBIM, owned by Dresdner Bank, the German bank, following a shake-up of its global asset management operations.

The bank has created a new unit, known as Dresdner RCM, to manage all of its non-German asset management operations.

As part of this process, the new company announced last week that it had completed the restructuring of its emerging markets teams.

In total, eight people have left Dresdner RCM's emerging markets team, including Mr King. Some of them are thought to be poised to join Mr King at King Street Advisors.

King Street is seeking regulatory approval and expects to begin operating later this year.

SSGA currently invests $8.5bn of the $320bn it manages for institutions and individual investors in emerging markets.

RESULTS

	Period	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aberdeen Asset	6 mths to Mar 31	10	(9.17)	3.28	(3.38)	2.69	(2.69)	1.25	July 16	1	-	3.2
Airsprung	Yr to Mar 31	-	(-)	-	(-)	-	(-)	3.45#	June 10	3.7	5.4	5.4
British Airways	Yr to Mar 31	8,359	(7,760)	640	(585)	55.7†	(49.4)	10.8	July 31	9.8	15.05	13.65
Charles Stanley	Yr to Mar 31	-	(-)	-	(-)	-	(-)	2.75#	June 6	2.76	3.575	3.5
Fayrewood ф	Yr to Apr 30	-	(-)	-	(-)	-	(-)	0.8	Sept 22	-	0.8	-
Greenalls	6 mths to Mar 28	557.7	(544.9)	57.8♠	(27.1♠)	15.65†	(7.93)	6.7	July 4	6.22	-	15.4
Greenway	Yr to Mar 31	12.9	(11.9)	0.158	(0.75)	0.87	(2.58)	1.5	July 15	1.5	2	2
Independent Parts	Yr to Mar 31	25.6	(20.3)	4.22	(3.74)	12.16	(12.56)	4	Aug 15	4	6.2	6
Paragon	6 mths to Feb 28	18.8□	(16.8□)	10	(8.2)	11.4	(9.3)	1.2	July 31	1.1	-	2.4
RM	6 mths to Mar 31	49	(45.2)	1.68	(1.32)	6.3	(5)	2.3	July 4	1.8	-	8
Silk Industries	Yr to Feb 28	16.3	(14.5)	2.83	(2.35)	15.6	(13.7)	5#	June 9	4	7	6

Investment Trusts	Period	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
American Opport'y	6 mths to Mar 31	104.1	(97.9♦)	0.031	(0.026L)	0.2†	(0.35L)	-	-	-	-	-
Dunedin Smaller	6 mths to Apr 30 ★	420.03	(410.84)	0.794	(0.926)	4.72	(5.51)	3	June 30	3	-	9
Edinburgh Inca	6 mths to Mar 31	35.41	(31.4)	0.024L	(0.074L)	0.03L	(0.09L)	-	-	-	-	nil
F&C Eurotrust	6 mths to Mar 31 ★	342.72	(296.57)	0.955L	(1.11L)	1.53L	(1.78L)	-	-	-	-	1.6
F&C Income Growth	Yr to Mar 31	115.23	(105.95)	1.56	(1.47)	3.6	(3.41)	1.2	June 27	1.15	3.55	3.4
GT Income Growth	15 mths to Mar 31	116.85	(-)	1.99	(-)	3.69	(-)	1.7	June 27	-	3.3	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. †On increased capital. #Second interim. □Net interest income. фAim stock. ♦At September 30. ★Comparatives restated.

LAW

Court rejects Lux tax law

EUROPEAN COURT

National tax provisions compelling non-resident taxpayers in Luxembourg to maintain accounts in Luxembourg relating to activities carried out there were contrary to the freedom of establishment rules of the Treaty of Rome, the European Court of Justice ruled last week.

The judgment arose in the context of a dispute between the Luxembourg tax authorities and Singer, a non-resident company established in Luxembourg, but headquartered in France.

Under Luxembourg law, non-resident taxpayers were allowed to deduct losses carried forward from previous years from their net income, provided they were economically related to income received locally and provided accounts were kept in Luxembourg and the accounts complied with the relevant Luxembourg laws.

Singer sought to set off losses of more than LFr23m ($659,025). Its request was refused on the grounds that local rules had not been met. The company appealed to the Conseil D'Etat, claiming the refusal impaired the freedom of establishment guaranteed by the treaty. The court referred the case to the European Court.

The Court first examined whether the condition that losses must be economically related to local income was lawful under European law.

The Court found that the condition of keeping accounts could constitute an unlawful restriction on freedom of establishment in that a non-resident company had to keep two sets of accounts, one complying with rules in the member state in which it was headquartered and another complying with Luxembourg rules.

Such a condition could only be lawful if it pursued a legitimate aim compatible with the treaty and was justified by pressing reasons of public interest.

The Luxembourg government, supported by the UK, argued that a national measure, such as the one under consideration, was essential to ascertain the amount of income taxable in a member state.

The European Commission, on the other hand, argued that although the aims which the condition pursued were legitimate under EU law, it was not essential for their attainment. It said the Luxembourg authorities could ascertain the amount of the losses by referring to the accounts kept by the non-resident parent in France.

This argument was rejected by the Court, which said that as European law stood there were no harmonising provisions relating to the determination of the basis of assessment to direct tax. Consequently each member state drew up its own rules.

Thus, there was no guarantee that a company's accounts drawn up at home base would provide relevant figures concerning the amount of income chargeable to tax and of the losses which could be carried forward in another member state in which the company had a subsidiary.

However, the Court found that the condition went beyond what was necessary to enable the amount of losses deductible from income to be ascertained. As a rule, non-resident companies in Luxembourg were not required to keep separate accounts. It was only if they wished to carry forward losses that separate accounts were required.

Provided the taxpayer demonstrated clearly and precisely the amount of the losses concerned, the Court said Luxembourg could not refuse to allow losses to be carried forward on the ground that the relevant accounts had not been kept and held in Luxembourg.

C-250/95: Futura Participations and Singer v Administration des Contributions, ECJ FC, May 15 1997.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

New president at All Nippon

All Nippon Airways, Japan's second largest airline, has decided to appoint Kenzo Yoshikawa to replace its current president, Seiji Fukatsu, who is to resign in the summer.

Yoshikawa, 60, who is currently president of ANA Real Estate, came as a surprise in the industry which had expected Fukatsu, 64, to continue in his post.

The appointment follows a power struggle within ANA in which Fukatsu clashed with the company's honorary chairman, Tokuji Wakasa, (82) and chairman, Takaya Sugiura. Both Wakasa and Sugiura are former bureaucrats at the Ministry of Transport. Fukatsu has been with ANA throughout his career.

The internal turmoil at ANA, which has triggered criticism from a leading government official and from the Transport Minister, has raised concerns about the company's future approach to restructuring. Fukatsu has been a strong proponent of aggressive restructuring measures and had been working on pushing through much-needed measures to bring the airline into a more competitive position vis-a-vis international rivals.

However, the outspoken Fukatsu, frequently disagreed with Wakasa and Sugiura who favoured a less radical approach. Wakasa, who was arrested and convicted for his role in the Lockheed bribery scandal, which rocked Japan in the early 1980s, has continued to wield tremendous influence over ANA, in large part due to his strong links with the Transport Ministry, analysts said.

Michiyo Nakamoto in Tokyo

BHP's chairman hangs up his hat

An era has ended with Brian Loton hanging up his hat as chairman of BHP, Australia's largest company. The courteous, if rather distant, steelman has been at the "Big Australian's" tiller for 15 years - first as managing director, then chief executive, and finally chairman.

He has presided over BHP's long battle against the takeover aspirations of Robert Holmes a Court and John Elliott in the mid 1980s, and the company's transformation from a predominantly domestic business into a global resources stock. Over one-third of the group's A$ 30bn assets and two-thirds of its sales are outside Australia.

The company had a dream run in the late 1980s and early 1990s, but its fortunes have been more mixed recently. Restructuring of the steel and oil divisions is underway, and BHP has admitted that all assets are currently under review. As one of the world's most diverse resources groups, it also invites periodic break-up speculation.

Loton is quick to contest any suggestions that the conglomerate structure might be passé. "Tell me about the common thread at General Electric, Unilever, Nestle, Proctor & Gamble, Johnson & Johnson," he retorts. "As far as BHP's concerned, resources and earth sciences, that's our bag."

He sees one of the main challenges as the tussle between the demands of shareholders and the broader responsibilities of companies, a particular issue for BHP given its scale within its home market and the fact that its business has implications for the environment.

"We've all been brought up to believe that a corporation's duty is to look after and grow the shareholders' wealth," admits Loton. "But increasingly the responsibilities are seen as more diffuse. Corporations will have to lead the way in having communities really understand what they're trying to do."

Australia seems to be suffering a popular backlash against the economic policies of the past decade, which have seen the country lower tariff barriers and "internationalise" - prompting much industrial restructuring. A recent decision by BHP to shut down its oldest steelmaking facilities, with the loss of 2,500 jobs, has come to epitomise the debate. Loton acknowledges the difficulties, but ultimately sees little alternative. "We're seeing the restructuring of this country all over the place – whether its telecoms or iron ore. We shouldn't try to hold it back - we can't".

Nicki Tait, Sydney

Zurich greets Mead in English

Dana Mead, chairman of Tenneco, the US conglomerate, need not fear that he will not know what is going on when he joins the board of Zurich Group, the Swiss insurance giant, next month. Zurich is joining the growing number of Swiss multinationals which have decided to use English at supervisory board meetings.

Zurich has recently dropped the word insurance from its brand name to emphasise its bid to become a global financial services company. The decision to drop German as the sole language of the supervisory board is another sign of the company's growing internationalisation.

Zurich is not the first. Swiss Re, the world's second biggest reinsurer, switched its board language to English last year after George Farr, vice chairman of American Express, joined its board. ABB, the electrical engineering conglomerate, has six different nationalities on its board and English has been the company language since the 1988 merger of Asea of Sweden and Brown Boveri of Switzerland.

By contrast, Novartis, one of the world's leading pharmaceutical companies, has the same policy as the Swiss parliament. Its directors can choose whether to speak in German, French or English and interpreters are provided for those that cannot understand.

William Hall, Zurich

ON THE MOVE

■ Maximilian Graf Drechsel has been appointed managing director of HSBC PRIVATE EQUITY (Duesseldorf), part of the HSBC group. He has been active in HSBC Private Equity Europe since the beginning of this year.

■ INVESTOR, the Swedish holding company, is to appoint Marcus Wallenberg deputy chief executive officer and chief financial officer. Wallenberg, presently vice-president of Investor, will be second in command after chief executive Claes Dahlbaeck. Investor is the key holding company of the Wallenberg family empire, which also is the single largest shareholder of S-E-Banken.

■ BUDGET RENT A CAR a wholly owned subsidiary of Budget Group, has appointed Jeffrey Hendrickson, 51, senior vice-president and general manager, US rental operations, reporting to the chairman. He was formerly senior vice president of Brink's Incorporated.

■ AT & T Corp has appointed Daniel Somers chief financial officer and senior executive vice president. Somers, who was chairman and chief executive of Bell Cablemedia, replaces Richard Miller, who resigned in March to "pursue other interests."

■ C. J. Silas, chairman of COMSAT CORP has resigned for health reasons. Comsat, a global provider of communications services and products, has appointed Edwin Colodny, who has been a director since 1992, chairman.

■ Dario Pasqua, managing director of BANCARIO SAN PAOLO DI TORINO has resigned.

■ BANK OF AMERICA has expanded its asset securitization operation in its Europe, Middle East and Africa region and appointed Noel Edison as a managing director to head the business.

■ Italian office equipment company OLIVETTI LEXIKON has appointed Daniele Signorini, 48, as its new chief executive officer, as part of changes at the group which bring in a new management team. He will move from the US-based household appliance group Whirlpool, where he was vice-president of group sales with responsibility for sales in Europe. Signorini replaces Emilio Torri who is leaving the company.

■ Christian Manset, 56, member of the board at Compagnie Financiere de Paribas and vice-president of the Banque Paribas supervisory board, has been appointed chairman of the board at PARIBAS BELGIQUE.

■ UNIVERSAL STUDIOS has appointed Cathy Nichols as chairman and chief executive of Universal Sudios Recreation Group. She replaces Ron Bension who left Universal as part of a restructuring in November. Nichols has served 22 years at management consulting firm McKinsey where she was the first woman director.

■ NATIONAL AUSTRALIA BANK ASIA has appointed Jeff Mitchell as general manager of National Australia Bank's global wholesale banking team in Asia.

■ UNION BANK OF SWITZERLAND has appointed Beryl Sze as an executive director in charge of financing and derivatives transaction management. She was previously a senior lawyer with Linklaters and Paines.

■ NIKKO SECURITIES has appointed Timothy Cronin, 42, as co-president. He joins from Paine Webber Group.

■ BARCLAYS investment banking unit has appointed Christopher Chase, 33, director and senior sales trader for the equities division of its the Pacific Rim sales and trading desk. He was a vice-president and Asian sales trader with NatWest Securities. He is joining Barclays BZW unit.

■ Brian Finn, co-head of mergers at Credit Suisse First is joining CLAYTON, DUBILIER & RICE, a New York buyout company.

■ Bill Nairn has agreed to resign as managing director of JCI, a South African Mining conglomerate, at the request of the company's new controlling shareholder. Mzi Khumalo, executive chairman of JCI, is taking an increasing management role in the mining house. Khumalo headed a consortium of investors from South Africa's black community in a buying a controlling 30% stake in JCI from Anglo American Corp. in April. Nairn's departure ends a career of 33 years with the mining group. He joined Johannesburg Consolidated Investment, as it was then known, in 1964 at the company's Randofontein Estates gold mine.

■ Dewey Shay, senior vice-president and chief administrative officer with DONNA KARAN INTERNATIONAL has left the fashion design concern and will cease to continue as a director. The company is looking for a successor.

■ THE RESERVE BANK OF INDIA has appointed S. Gurumurthy as executive director in charge of the departments of banking operations, development and financial companies. Gurumurthy, who was principal of the Reserve Bank Staff College, will also look after the Financial Institutions cell and Deposit Insurance & Credit Guarantee Corporation.

■ CEPHALON, the international biopharmaceutical company, has recently appointed Kenneth White as vice-president, worldwide regulatory affairs, John Osborn as vice-president legal, Jon Wallace as vice-president, quality assurance, Paul Nemeth, as senior director, regulatory affairs, and Uwe Maschek as country manager, Germany.

■ PUTNAM INVESTMENTS has appointed Debbie Farrell and Carmel Peters senior portfolio managers in its emerging markets equity group.
Farrell was a senior portfolio manager with Emerging Markets Investors Corp. in Washington. Peters was a fund manager in Asia with Rothschild Asset Management and Wheelock NatWest Investment Management, for the last 13 years.

■ Giles Vardey, 41, former director of markets development and marketing at the London Stock Exchange, will become president and chief executive of FIDELITY BROKERAGE SERVICES, the European brokerage division of the US based Fidelity Brokerage Group. Vardey, who has been with the Exchange since 1992 joins Fidelity in June.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

Gilts drift lower in quiet trading

GOVERNMENT BONDS

By Michael Lindemann in London and Jane Martinson in New York

Holidays in Germany and France and wariness about a possible move on interest rates by the US Federal Reserve's Open Market Committee meant government bond markets saw little activity yesterday.

The cautious sentiment was exemplified by UK GILTS. The June long gilt future rose briefly to 113$\frac{31}{32}$ before drifting downwards to settle at 113$\frac{7}{16}$, down $\frac{11}{32}$.

"We're just in a consolidation phase at the moment," said Mr Andrew Roberts, gilts analyst at UBS.

The 10-year yield spread of gilts over bunds widened four basis points to 145 points following the fall but Mr Roberts said gilts still remained "very good value" compared with bunds.

SPANISH BONOS ended the day at 115.68, down 0.05 from Friday's close, amid some signs of profit-taking.

Mr David Brown, chief European economist at Bear, Stearns, suggested bono prices would pick up on the combination of strong Spanish economic data and further signs that Spain would become a founding member of the European single currency.

He said the 10-year yield spread of bonos over bunds, which last week touched an all-time low of 79 basis points, could well fall to around 65 points "near-term". Yesterday it widened one basis point to 80 points.

However, Ms Sharda Persaud, senior economist at San Paolo Bank, was more phlegmatic. "Markets will remain fairly quiet," she said. "Most of the good news has been factored in."

Amid the calm ITALIAN BTPs provided a flutter of excitement, mainly because of renewed hopes of interest rate cuts later this week.

The June BTP future jumped to 131.10 before midday after the Bank of Italy trimmed its repo rate, a cut which Ms Persaud described as a "strong signal" that the discount rate would be lowered later this week, possibly by as much as 75 basis points.

The cut in the discount rate could come as early as Wednesday night once the provisional data from 11 Italian cities had come in.

After lunch, however, the BTP future trailed downwards to settle at 130.77, still up from Friday's close of 130.15. The spread over bunds tightened 7 basis points to 141 points.

US BOND prices were flat at mid-session as the market prepared for today's Fed committee meeting.

The benchmark 30-year bond was unchanged at 96$\frac{15}{32}$ to yield 6.9 per cent in thin volume. The two-year bond fell $\frac{1}{32}$ to 100$\frac{3}{32}$, yielding 6.251 per cent.

Traders said most investors had already placed their bets on whether the Fed would raise interest rates or not today.

Mr Richard Gilhooly, international bond strategist at Paribas Capital Markets, said some price weakness was to be expected in the run-up to the meeting.

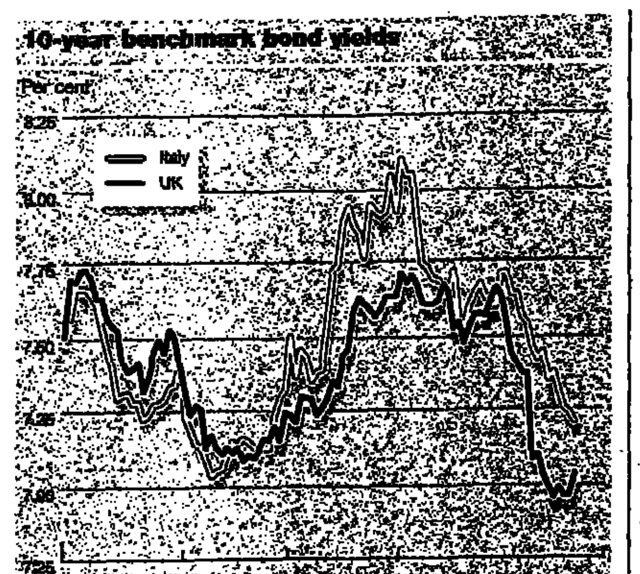
"Speculative positions, as opposed to real money, will be unwound," he said. "While position squaring will be the order of the day."

While economists continued to be divided on whether the Fed would raise rates, the short end of the curve suffered from some selling pressure.

Traders blamed the selling on slightly increased expectations that the decision would be taken to lift rates today rather than at the next FOMC meeting, scheduled for July.

The pressure on the short end was accentuated by tomorrow's release of details of next week's auction of two-year and five-year notes.

The yield curve between the two-year and 30-year Treasuries is towards the flatter end of its performance so far this year. The difference of 65 basis points compares with a high of just over 90 points at the beginning of the year. Mr Gilhooly said a decision to lift rates would lead to a flatter curve at the end of the week.



Poor month for hedge fund managers

By Samer Iskandar

Hedge funds managers put in a "sub-standard performance" last month, according to Van Hedge Fund Advisors, an investment advisory firm.

In its monthly review of performance, Van Hedge said the managers took defensive positions in anticipation of a correction in share prices.

"A number of factors that surfaced in April convinced hedge funds to limit their market exposure during the month, which in turn resulted in sub-standard performance," said Mr George Van, chairman.

"In seeking to protect investors many managers were not positioned as well as they might have been to enjoy the benefits of the late-April market surge."

Offshore market-neutral arbitrage hedge funds, which do not take a view on the direction of stock prices, showed the best performance, 3.7 per cent on average over the month. They were followed by offshore funds of funds, with 2.7 per cent and US market-neutral/arbitrage funds, returning 1.3 per cent.

Conversely, the average US hedge fund lost 0.6 per cent while the average offshore fund gained only 0.4 per cent.

This compares with a rise of 6 per cent by the S&P 500 index and average gains of 1.6 per cent for US equity mutual funds.

Since the beginning of the year, short-selling funds have shown the best performances, returning 18.4 per cent, followed by offshore emerging markets funds (8.9 per cent) and offshore funds of funds (8.2 per cent).

CAPITAL MARKETS NEWS DIGEST

Polish bank issues $100m convertible

Bank BPH, one of Poland's largest private sector banks, has issued a $100m convertible eurobond – only the second convertible transaction out of eastern Europe. The five-year issue, lead-managed by Credit Suisse First Boston, was launched at a conversion premium of 17 per cent and a coupon of 3 per cent. Officials said the paper was distributed among dedicated convertible funds, emerging market equity investors and fixed-income funds.

Stalexport, the Polish trade company, attracted some criticism earlier this year when it issued eastern Europe's first convertible bond with a five-year $50m offering. The bond has since performed poorly in secondary markets.

Mr Crispin Osborne, director at CSFB, said the BPH issue was designed to attract strong investor support. "We could have priced it a bit it more tightly but we wanted good investor confidence and that is what we have got," he said. Bank BPH is one of the most traded stocks on the Warsaw stock exchange. *Edward Luce*

Moody's upgrades Philippines

Moody's Investors Service yesterday upgraded the Philippines credit rating in recognition of the success of the country's five-year reform programme. The upgrade by one notch from Ba2 to Ba1 failed to dampen jitters on the Philippine stock exchange, which closed at a 17-month low at 2,509. But Philippine debt prices were stronger, outperforming other emerging market debt. In a generally softer market, the Philippine par bond – the country's most widely-traded Brady – was quoted in New York at midday at 87¾ bid, up ¼ on Friday's close.

Moody's said the upgrade was supported by continued implementation of structural reforms and "considerable adjustment" in the fiscal accounts. It said the consolidated government budget has been brought close to balance through tax measures and the elimination of price subsidies on petrol consumption. "Sound fiscal and monetary policies, coupled with favourable agricultural conditions, have reduced inflation below 5 per cent in early 1997 from historical double-digit levels," it added.

The upgrade, which is expected to be matched by Standard & Poor's later this year, comes amid general nervousness over growth prospects in south-east Asia. Financial difficulties in the Thai banking sector and a downturn in exports from the region have prompted fears over the sustainability of the Philippine recovery.

Richard Lapper and Edward Luce

Elektrim stake sold

Institutional investors from the US and Europe have paid $48.6m for an 8 per cent stake in Elektrim, the Polish industrial and trading conglomerate. Société Générale European Emerging Markets said yesterday it had placed the stake, which had belonged to ABB Asea Brown Boveri, the Swiss-Swedish conglomerate, with 11 institutions. Some 5.92m shares were sold for 25.8 zlotys each. *Richard Lapper*

Slovenia plans D-Mark eurobond

By Edward Luce

Slovenia is to launch its first D-Mark denominated eurobond in an attempt to broaden its recognition in the build-up to the proposed launch of the European single currency in 1999. The DM300m issue, which follows Slovenia's debut eurodollar bond last year, will be launched in the next few weeks.

Mr Mitja Gaspari, Slovenia finance minister, said yesterday the former Yugoslav republic was also planning a yen-denominated issue within the next 12 months and a yankee bond issue, possibly during 1998. "We may also consider a euro-denominated bond later on, but we will have to consider the legal requirements," said Mr Gaspari.

The republic, which has annual funding requirements of $300m to $500m over the next five years, is hoping to be among the first wave of east European entrants to the European Union in the next two years.

"We want to have a presence in all the international bond markets," said Mr Gaspari. "The Deutsche Mark investor base is obviously a priority because so much of our trade is conducted with the D-Mark bloc of countries."

Slovenia's debut $300m eurobond last year attracted attention as the tightest east European launch spread to date at just 58 basis points above five-year Treasuries. The issue, which has been trading at between 50 basis points and 55 basis points over Treasuries, was overtaken last week by the Czech Export Bank, which launched a eurobond at just 50 basis points over Treasuries.

Officials at Credit Suisse First Boston, which was appointed joint lead manager with Dresdner Kleinwort Benson, said the Slovenian D-Mark issue would have a maturity of seven to 10 years. Slovenia, which is rated A3 By Moody's and A by Standard & Poor's, is the highest rated sovereign in eastern Europe. Mr Gaspari said Slovenia was also negotiating a syndicated loan which would be finalised later this summer.

Officials added that there was some scope for a refinancing of Slovenia's dollar and D-Mark denominated debt which was inherited from Yugoslavia after its dissolution. Slovenia has the option of pre-paying some of its $1.6bn obligations to the London Club of creditors. But officials said a lack of liquidity in its Yugoslav debt made a conventional debt buy-back operation unlikely.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	93.8780	−0.450	7.67	7.66	7.98
Austria		5.750	04/07	0.0000	–	0.00	5.70	5.81
Belgium		6.250	03/07	0.0000	–	0.00	5.81	6.00
Canada *		7.000	12/06	103.3200	−0.100	6.53	6.53	6.81
Denmark		8.000	03/06	0.0000	–	0.00	6.31	6.60
France	BTAN	4.750	03/02	0.0000	–	0.00	4.65	4.79
	OAT	6.500	04/07	0.0000	–	0.00	5.59	5.78
Germany Bund		6.000	07/07	0.0000	–	0.00	5.69	5.89
Ireland		8.000	08/06	109.3700	−0.160	6.61	6.57	6.81
Italy		6.750	02/07	97.8100	+0.400	7.06†	7.19	7.51
Japan	No 145	5.500	03/02	116.8574	+0.310	1.72	1.82	1.40
	No 182	3.000	09/05	103.7348	+0.390	2.46	2.59	2.12
Netherlands		5.750	02/07	0.0000	–	0.00	5.58	5.80
Portugal		9.500	02/06	0.0000	–	0.00	6.47	6.77
Spain		7.350	03/07	105.5600	+0.030	6.56	6.56	6.85
Sweden		8.000	08/07	0.0000	–	0.00	7.00	7.13
UK Gilts		7.000	06/02	100–06	−6/32	6.96	6.82	7.27
		7.250	12/07	101–05	−11/32	7.09	6.96	7.60
		9.000	10/08	114–09	−11/32	7.15	7.03	7.69
US Treasury *		6.625	05/07	99–16	−3/32	6.69	6.63	6.89
		6.625	02/27	96–16	−5/32	6.90	6.87	7.10
ECU (French Govt)		7.000	04/06	0.0000	–	0.00	5.92	6.14

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.27
Prime rate	8½	Two month	-	Three year	6.41
Broker loan rate	7¾	Three month	5.21	Five year	6.54
Fed.funds	5$\frac{9}{16}$	Six month	5.57	10-year	6.69
Fed.funds at intervention	-	One year	5.85	30-year	6.90

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000 (May 16)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	130.56	129.88	−0.38	130.76	129.86	139,168	164,431
Sep	129.00	128.30	−0.40	129.00	128.68	349	13,799
Dec	98.42	97.72	−0.40	98.42	98.42	2	–

■ LONG TERM FRENCH BOND OPTIONS (MATIF) (May 16)

Strike Price	CALLS Jun	CALLS Jul	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Sep
127	2.90	1.70	2.14	0.02	0.40	0.85
128	1.95	1.01	1.48	0.07	0.71	1.18
129	1.09	0.48	0.94	0.21	1.18	1.63
130	0.42	0.20	0.56	0.54	-	-
131	0.09	0.07	0.28	1.21	-	-

Est. vol. total, Calls 19,559 Puts 11,772. Previous day's open int., Calls 120,669 Puts 184,525.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	101.75	101.54	−0.33	101.96	101.52	65845	269869
Sep	100.76	100.53	−0.33	100.90	100.53	791	31031

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
10150	0.26	0.29	0.52	0.69	0.22	1.28	1.49	1.66
10200	0.07	0.18	0.36	0.52	0.53	1.65	1.83	1.99
10250	0.02	0.10	0.25	0.38	0.98	2.07	2.22	2.35

Est. vol. total, Calls 13178 Puts 24960. Previous day's open int., Calls 246567 Puts 306718

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	130.15	130.77	+0.62	131.10	130.11	62438	113462
Sep	131.04	131.37	+0.63	131.66	131.02	1778	10415

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Jun	CALLS Sep	PUTS Jun	PUTS Sep
13050	0.50	2.57	0.23	1.70
13100	0.19	2.27	0.42	1.90
13150	0.06	2.00	0.81	2.13

Est. vol. total, Calls 5003 Puts 6980. Previous day's open int., Calls 109698 Puts 125899

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	115.70	115.67	−0.06	115.94	115.50	61,040	86,712
Sep	114.75	114.88	−0.03	115.10	114.75	229	2,835

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	113-24	113-14	-0-11	113-26	113-11	42846	219885
Sep	114-01	113-23	-0-12	114-02	113-27	2877	13260

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
113	0-39	1-29	1-54	2-10	0-11	0-47	1-08	1-28
114	0-09	0-58	1-21	1-38	0-45	1-12	1-39	1-56
115	0-03	0-34	0-59	1-10	1-39	1-52	2-13	2-28

Est. vol. total, Calls 1646 Puts 1552. Previous day's open int., Calls 78238 Puts 54180

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000 (May 16)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	96.38	95.94	−0.02	96.38	95.50	1,609	6,303
Sep	–	95.56	−0.02	–	–	–	–

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	110–00	110–01	+0–02	110–03	109–30	285,620	494,500
Sep	109–18	109–20	+0–02	109–22	109–18	4,924	70,457
Dec	–	109–06	–	–	–	4,462	23,459

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	124.42			124.56	124.42	3166	n/a
Sep	123.03			123.15	123.03	1454	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Mon May 19	Day's change %	Fri May 15	Accrued interest	xd adj. ytd
1 Up to 5 years (19)	120.05	−0.07	120.14	1.99	4.81
2 5-15 years (21)	153.58	−0.28	154.01	3.20	3.79
3 Over 15 years (6)	180.05	−0.35	180.68	6.06	3.18
4 Irredeemables (5)	204.74	−0.64	206.07	0.71	7.10
5 All stocks (51)	147.44	−0.23	147.77	3.24	4.19

	Low coupon yield May 19	May 16	Yr. ago	Medium coupon yield May 19	May 16	Yr. ago	High coupon yield May 19	May 16	Yr. ago
5 yrs	6.96	6.90	7.43	7.02	6.96	7.47	7.06	7.02	7.57
15 yrs	7.14	7.10	8.15	7.17	7.13	8.17	7.28	7.23	8.26
20 yrs	7.19	7.15	8.23	7.18	7.14	8.23	7.30	7.25	8.30
Irred.†	7.32	7.27	8.27						

Index-linked	Mon May 19	Day's change %	Fri May 15	Accrued interest	xd adj. ytd
6 Up to 5 years (2)	204.93	−0.07	205.06	0.79	3.03
7 Over 5 years (10)	197.26	−0.15	197.56	1.16	2.86
8 All stocks (12)	197.00	−0.14	197.28	1.12	2.86

	Inflation 5% May 19	May 16	Yr. ago	Inflation 10% May 19	May 16	Yr. ago
Up to 5 yrs	3.37	3.34	2.79	2.69	2.66	1.29
Over 5 yrs	3.59	3.57	3.90	3.37	3.35	3.58

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	May 19	May 16	May 15	May 14	May 13	Yr ago	High*	Low*
Govt. Secs. (UK)	96.60	96.66	97.32	97.51	97.23	92.74	97.51	93.31
Fixed interest	120.97	121.53	121.56	121.39	121.02	112.32	121.56	115.32

Gilt Edged Activity Indices

	May 16	May 15	May 14	May 13	May 12
Gilt Edged bargains	NA	NA	NA	NA	NA
5-day average	NA	NA	NA	NA	NA

 * for 1997. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974. Gilt Edged volume data will be unavailable until the end of May.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on May 19

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Spain 7¼ 03	4000	110¼	110⅜	−⅛	5.15
Abbey Natl Treasury 8 03 £	1000	102⅝	102½	−⅛	7.48

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES AND MONEY

Dollar gains on rate rise prospects

MARKETS REPORT

By Simon Kuper

The dollar rose yesterday on growing belief that the Federal Reserve might raise interest rates after today's Open Market committee meeting. The currency had plunged for a fortnight on forecasts that Japan would raise rates soon.

The US money market curve, based on federal funds futures contracts, is pricing in a slightly less than even chance of a rate rise today. A Reuter poll of 39 US dealers found 18 forecasting a 25-basis-point rise, with 21 seeing no change.

The dollar rose despite a 164 per cent year-on-year jump in Japan's April trade surplus. The currency gained 1.3 pfennigs against the D-Mark and Y0.9 against the yen to close in London at DM1.707 and Y116.2. It has lost Y10 against the yen over the last fortnight.

■ The market has little idea what to expect of today's FOMC meeting. Mr Carl Weinberg, chief economist at High Frequency Economics in New York, said the debate was between "the youngsters" who pointed to the lack of obvious price pressures and therefore predicted no rate rise, and "the more seasoned pros" who believed that "the Fed has a model saying that if unemployment stays this low we're going to get inflation." The FOMC raised the federal funds rate by 25 basis points to 5.50 per cent after its last meeting on March 25.

■ The lira rose L8.1 against the D-Mark to L980.7 yesterday. It gained on growing belief that Italy would be admitted to the first round of European monetary union, and that the Bank of Italy would cut interest rates soon. Traders have been waiting for a rate cut for months, particularly as inflation has been at its lowest levels for decades. Portugal and Spain have reduced rates in recent weeks.

The Bank of Italy fuelled hopes of a cut when it said that the minimum rate at its 28-day repurchase tender yesterday was 6.78 per cent, down from 7.29 per cent at the previous repo tender on May 13. The new rate was the lowest since the bank introduced lira repurchase auctions in 1982. Traders expect that rates will be cut if consumer price inflation data emerge soft as expected this week.

The market believes Italy's chances of making the first round of Emu rose last week, when Germany mooted the option of revaluing its gold reserves in order to reduce its budget deficit. This was read by many as a German attempt to meet the Emu criteria through creative accounting. If Germany were allowed to get away with this, economists reasoned, then it might have to judge that Italy had met the Emu criteria too. But most currency strategists predicted that the lira would reverse soon.

■ Pound in New York

May 19	—Latest—	— Prev. close —
£ spot	1.6380	1.6370
1 mth	1.6371	1.6362
3 mth	1.6356	1.6345
1 yr	1.6288	1.6277

Source: Datastream

■ The pound rose with the dollar yesterday, gaining 2.3 pfennigs against the D-Mark to close at DM2.797. Attention has shifted away from sterling in the last fortnight, as the dollar/yen rate has dominated the market. But currency strategists have moved towards the view that the pound has peaked.

A paper by HSBC Markets today makes this point strongly. HSBC argues that the factors that supported the pound since August are now turning against it. Firstly, it predicts that the UK's relatively high interest rate levels will rise by less than the 50 basis points the money market is pricing in for the rest of 1997. A fiscally tight mini-budget this summer could remove the need for sharp rate rises.

Secondly, the chance that the Labour government may return sterling to the European exchange-rate mechanism reduces the pound's attraction as a safe haven from Emu. Thirdly, the dollar, whose strength had long buoyed sterling, may continue its slide of the last fortnight. Finally, predicts HSBC, the UK's trade deficit will widen significantly.

■ Mr Carlos Menem, the Argentine president, yesterday said South America's Mercusor customs union should aim at a single currency modelled on the prospective euro. Brazil has previously rejected such calls from Mr Menem's economy minister, Mr Roque Fernandez. Nobody expects a South American single currency to arrive soon, but the idea may bear watching in years to come.

■ OTHER CURRENCIES

May 19	£	$
Czech Rp	50.2682 - 50.3700	30.6850 - 30.7340
Hungary	297.661 - 297.870	181.700 - 181.750
Iran	4916.70 - 4914.60	3000.00 - 3000.00
Kuwait	0.4949 - 0.4953	0.3021 - 0.3022
Poland	5.1718 - 5.1789	3.1570 - 3.1600
Russia	9426.20 - 9431.87	5754.00 - 5755.00
U.A.E.	6.0147 - 6.0205	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

May 19		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.6886	+0.1637	805 - 966	19.6970	19.4588	19.6351	3.3	19.5471	2.9	-	-	102.8
Belgium	(BFr)	57.7261	+0.4463	810 - 712	57.8050	57.1020	57.5711	3.2	57.2561	3.3	55.8261	3.3	102.8
Denmark	(DKr)	10.6496	+0.0851	457 - 535	10.6675	10.5301	10.6241	2.9	10.5716	2.9	10.3601	2.8	105.5
Finland	(FM)	8.4316	+0.0657	236 - 395	8.4395	8.3440	-	-	-	-	-	-	82.0
France	(FFr)	9.4184	+0.0739	156 - 212	9.4332	9.3068	9.3942	3.1	9.3483	3.1	9.1237	3.1	105.7
Germany	(DM)	2.7973	+0.0233	962 - 984	2.8020	2.7637	2.7897	3.3	2.7737	3.4	2.7034	3.4	104.1
Greece	(Dr)	445.538	+3.347	197 - 879	446.301	440.209	-	-	-	-	-	-	65.0
Ireland	(I£)	1.0749	+0.0015	736 - 762	1.0765	1.0717	1.075	-0.1	1.074	0.3	1.067	0.7	99.1
Italy	(L)	2743.22	+5.73	169 - 475	2748.74	2727.23	2744.92	-0.7	2746.32	-0.5	2750.17	-0.3	76.6
Luxembourg	(LFr)	57.7261	+0.4463	810 - 712	57.8050	57.1020	57.5711	3.2	57.2561	3.3	55.8261	3.3	102.8
Netherlands	(Fl)	3.1434	+0.0247	421 - 446	3.1491	3.1109	3.1349	3.2	3.117	3.4	3.0388	3.3	102.5
Norway	(NKr)	11.6426	+0.1052	360 - 491	11.6598	11.4769	11.6121	3.1	11.5526	3.1	11.3066	2.9	98.5
Portugal	(Es)	281.175	+1.891	033 - 317	281.916	278.398	281.025	0.6	280.65	0.7	-	-	93.9
Spain	(Pta)	235.525	+1.461	393 - 657	235.760	233.100	235.365	0.8	234.925	1.0	232.17	1.4	77.8
Sweden	(SKr)	12.5823	+0.0987	755 - 890	12.5890	12.4281	12.5608	2.1	12.5128	2.2	12.3188	2.1	84.0
Switzerland	(SFr)	2.3403	+0.0162	393 - 413	2.3438	2.3188	2.331	4.8	2.3116	4.9	2.2279	4.8	105.3
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	99.2
Ecu	-	1.4320	+0.011	314 - 326	1.4383	1.4191	1.4289	2.2	1.4234	2.4	1.3963	2.5	-
SDR†	-	1.17766	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6383	+0.0016	379 - 386	1.6427	1.6355	-	-	-	-	-	-	-
Brazil	(R$)	1.7490	+0.0016	485 - 495	1.7540	1.7452	-	-	-	-	-	-	-
Canada	(C$)	2.2477	+0.0037	468 - 486	2.2541	2.2448	2.2414	3.3	2.23	3.1	2.1883	2.6	85.1
Mexico	(New Peso)	12.9356	+0.0141	287 - 424	13.0157	12.9172	-	-	-	-	-	-	-
USA	($)	1.6386	+0.0011	382 - 389	1.6437	1.6355	1.6378	0.6	1.6361	0.6	1.6303	0.5	102.4
Pacific/Middle East/Africa													
Australia	(A$)	2.1166	+0.0022	154 - 177	2.1242	2.1100	2.116	0.3	2.1141	0.5	2.104	0.6	95.1
Hong Kong	(HK$)	12.6813	+0.0085	777 - 846	12.7201	12.6571	12.6753	0.6	12.6647	0.5	12.63	0.4	-
India	(Rs)	58.6519	+0.0048	984 - 054	58.8360	58.5870	-	-	-	-	-	-	-
Israel	(Shk)	5.5587	+0.0133	545 - 628	5.5649	5.5439	-	-	-	-	-	-	-
Japan	(Y)	190.383	+1.538	277 - 489	190.870	188.260	189.323	6.7	187.313	6.5	178.498	6.2	130.4
Malaysia	(M$)	4.0915	+0.0247	898 - 932	4.1000	4.0675	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3705	+0.0088	691 - 718	2.3764	2.3566	2.3703	0.1	2.3713	-0.1	2.3784	-0.3	113.1
Philippines	(Peso)	43.2127	+0.0318	866 - 588	43.3111	43.1850	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.1454	+0.0039	438 - 469	6.1644	6.1348	-	-	-	-	-	-	-
Singapore	(S$)	2.3505	+0.0058	492 - 518	2.3564	2.3437	-	-	-	-	-	-	-
South Africa	(R)	7.3186	-0.0084	146 - 226	7.3449	7.3145	-	-	-	-	-	-	-
South Korea	(Won)	1460.77	+0.94	636 - 518	1465.20	1458.25	-	-	-	-	-	-	-
Taiwan	(T$)	45.4780	+0.0619	273 - 286	45.6160	45.1459	-	-	-	-	-	-	-
Thailand	(Bt)	41.6643	-0.6979	366 - 920	42.6940	41.5340	-	-	-	-	-	-	-

† Rates for May 16. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 19		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria	(Sch)	12.0159	+0.0923	135 - 182	12.0200	11.8860	11.9934	2.2	11.9447	2.4	11.6959	2.7	102.9
Belgium	(BFr)	35.2300	+0.25	100 - 500	35.2900	34.8650	35.155	2.6	35	2.6	34.26	2.8	103.0
Denmark	(DKr)	6.4994	+0.0478	984 - 004	6.5129	6.4301	6.4876	2.2	6.4629	2.2	6.3509	2.3	105.0
Finland	(FM)	5.1458	+0.0368	420 - 495	5.1532	5.0939	5.1339	2.8	5.1095	2.8	5.0013	2.8	81.5
France	(FFr)	5.7480	+0.0414	475 - 485	5.7610	5.6870	5.7363	2.4	5.7136	2.4	5.5985	2.6	105.5
Germany	(DM)	1.7072	+0.0131	069 - 075	1.7110	1.6884	1.7035	2.6	1.6958	2.7	1.6589	2.8	104.0
Greece	(Dr)	271.910	+1.87	760 - 060	272.500	268.880	272.795	-3.9	274.335	-3.6	280.61	-3.2	64.8
Ireland	(I£)	1.5244	-0.0011	229 - 259	1.5325	1.5225	1.5237	0.5	1.5232	0.3	1.5199	0.3	-
Italy	(L)	1674.18	+2.43	360 - 475	1677.81	1664.80	1676.08	-1.4	1678.78	-1.1	1681.06	-0.4	76.0
Luxembourg	(LFr)	35.2300	+0.25	100 - 500	35.2900	34.8650	35.155	2.6	35	2.6	34.28	2.8	103.0
Netherlands	(Fl)	1.9184	+0.0138	180 - 187	1.9225	1.8985	1.9143	2.6	1.9057	2.6	1.8653	2.8	102.7
Norway	(NKr)	7.1054	+0.0597	029 - 079	7.1163	7.0069	7.0881	2.9	7.0627	2.4	6.9389	2.4	97.5
Portugal	(Es)	171.600	+1.045	550 - 650	171.900	169.600	171.585	0.1	171.52	0.2	170.21	0.8	94.3
Spain	(Pta)	143.740	+0.8	690 - 790	143.930	142.330	143.74	0.0	143.663	0.2	142.405	0.9	77.6
Sweden	(SKr)	7.6789	+0.0553	764 - 814	7.6824	7.5972	7.6695	1.5	7.6489	1.6	7.5544	1.6	83.8
Switzerland	(SFr)	1.4283	+0.009	280 - 286	1.4307	1.4165	1.4234	4.1	1.4137	4.1	1.3679	4.2	105.1
UK	(£)	1.6386	+0.0011	382 - 389	1.6437	1.6355	1.6378	0.6	1.6361	0.6	1.6303	0.5	98.2
Ecu	–	1.1443	-0.0061	440 - 445	1.1543	1.1384	1.1458	-1.5	1.1491	-1.7	1.1667	-2.0	-
SDR†	–	0.717848	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	+0.0003	998 - 998	0.9998	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0674	+0.0003	673 - 675	1.0677	1.0670	-	-	-	-	-	-	-
Canada	(C$)	1.3718	+0.0014	715 - 720	1.3742	1.3704	1.3688	2.6	1.3633	2.5	1.3443	2.0	84.7
Mexico	(New Peso)	7.8945	+0.0035	920 - 970	7.8970	7.8860	8.003	-16.5	8.2045	-15.7	9.1995	-16.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	102.8
Pacific/Middle East/Africa													
Australia	(A$)	1.2917	+0.0005	913 - 922	1.2923	1.2901	1.2921	-0.4	1.2922	-0.2	1.2912	0.0	96.9
Hong Kong	(HK$)	7.7393	+0.0008	388 - 398	7.7398	7.7385	7.7403	-0.2	7.7417	-0.1	7.7518	-0.2	-
India	(Rs)	35.7950	-0.02	700 - 200	35.8400	35.7620	35.885	-3.0	36.17	-4.2	33.975	5.1	-
Israel	(Shk)	3.3924	+0.0059	906 - 942	3.3942	3.3802	-	-	-	-	-	-	-
Japan	(Y)	116.190	+0.865	150 - 230	116.400	115.000	115.635	5.7	114.53	5.7	109.63	5.6	131.8
Malaysia	(M$)	2.4970	+0.0135	965 - 975	2.5000	2.4870	2.4992	-1.1	2.5034	-1.0	2.5203	-0.9	-
New Zealand	(NZ$)	1.4467	+0.0044	461 - 472	1.4479	1.4409	1.4475	-0.7	1.4499	-0.9	1.46	-0.9	-
Philippines	(Peso)	26.3725	+0.0025	500 - 950	26.3950	26.3500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-0.0001	504 - 506	3.7506	3.7503	3.7508	-0.1	3.7513	-0.1	3.7542	-0.1	-
Singapore	(S$)	1.4345	+0.0025	340 - 350	1.4375	1.4320	1.4329	1.4	1.4288	1.6	1.407	1.9	-
South Africa	(R)	4.4685	-0.006	650 - 680	4.4790	4.4630	4.506	-10.6	4.5835	-10.5	4.8815	-9.3	-
South Korea	(Won)	891.500	-	000 - 000	894.000	889.000	-	-	-	-	-	-	-
Taiwan	(T$)	27.7550	+0.02	300 - 800	27.7850	27.5700	27.7556	0.0	27.757	0.0	27.7613	0.0	-
Thailand	(Bt)	25.4275	-0.4425	550 - 000	26.0000	25.3500	25.4887	-2.9	25.6125	-2.9	26.1825	-3.0	-

† SDR rate per $ for May 16. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 16: Base average 1990=100.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

May 19	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3⅛	3⅛	3¼	3¼	3[illegible]	8.00	2.50	-
France	3¼	3¼	3⅜	3[illegible]	3½	3.10	-	4.75
Germany	3⅛	3⅛	3⅛	3¼	3⅜	4.50	2.50	3.00
Ireland	6⅛	6⅛	6⅞	6⅛	6¾	-	-	6.75
Italy	7	6[illegible]	6[illegible]	6⅝	6[illegible]	8.25	6.75	6.78
Netherlands	3⅛	3⅛	3¼	3⅜	3⅝	-	3.00	3.30
Switzerland	1[illegible]	1[illegible]	1⅝	1[illegible]	1[illegible]	-	1.00	-
US	5⅝	5[illegible]	5[illegible]	5[illegible]	6⅛	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5[illegible]	5[illegible]	6	6¼	-	-	-
US Dollar CDs	-	5.56	5.62	5.73	6.01	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4⅛	4¼	-	-	-
SDR Linked Ds	-	3⅛	3⅛	3¼	3[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 19	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3¾ - 3¼	3⅛ - 3[illegible]	3¼ - 3⅛	3¼ - 3⅛	3[illegible] - 3[illegible]	3[illegible] - 3⅜
Danish Krone	3[illegible] - 3[illegible]	3[illegible] - 3[illegible]	3⅝ - 3½	3⅝ - 3½	3[illegible] - 3[illegible]	3[illegible] - 3¾
German Mark	3⅛ - 2[illegible]	3⅛ - 3	3[illegible] - 2[illegible]	3[illegible] - 2[illegible]	3[illegible] - 3[illegible]	3[illegible] - 3[illegible]
Dutch Guilder	3¼ - 3[illegible]	3¼ - 3	3[illegible] - 3[illegible]	3¼ - 3⅛	3[illegible] - 3[illegible]	3[illegible] - 3[illegible]
French Franc	3[illegible] - 3[illegible]	3[illegible] - 3[illegible]	3[illegible] - 3[illegible]	3⅜ - 3¼	3[illegible] - 3[illegible]	3½ - 3⅜
Portuguese Esc.	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5⅝	5⅜ - 5[illegible]
Spanish Peseta	5[illegible] - 5[illegible]	5[illegible] - 5⅝	5⅝ - 5[illegible]	5¼ - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5⅛
Sterling	6¼ - 6⅛	6¼ - 6⅛	6[illegible] - 6¼	6[illegible] - 6⅜	6⅝ - 6[illegible]	6[illegible] - 6[illegible]
Swiss Franc	1⅞ - 1½	1¾ - 1½	1[illegible] - 1[illegible]	1¾ - 1½	1[illegible] - 1[illegible]	1[illegible] - 1[illegible]
Canadian Dollar	3[illegible] - 2[illegible]	3[illegible] - 2[illegible]	3[illegible] - 3[illegible]	3[illegible] - 3[illegible]	3[illegible] - 3[illegible]	4⅛ - 4
US Dollar	5⅝ - 5½	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	6 - 5⅞	6[illegible] - 6[illegible]
Italian Lira	7[illegible] - 6[illegible]	6[illegible] - 6[illegible]	6[illegible] - 6⅝	6[illegible] - 6[illegible]	6[illegible] - 6½	6[illegible] - 6[illegible]
Japanese Yen	[illegible] - [illegible]	[illegible] - [illegible]	½ - ⅜	[illegible] - ½	⅝ - ½	[illegible] - [illegible]
Asian $Sing	3⅞ - 3¾	3⅞ - 3¾	3[illegible] - 3[illegible]	3[illegible] - 3[illegible]	3[illegible] - 3[illegible]	3[illegible] - 3[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (May 16)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.55	96.52	+0.03	96.56	96.50	20,762	48,230
Sep	96.57	96.55	+0.02	96.60	96.54	10,625	56,834
Dec	96.56	96.51	-	96.56	96.50	5,105	34,576

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.80	96.79	-0.01	96.80	96.79	5546	233856
Sep	96.75	96.73	-0.01	96.75	96.73	7033	206535
Dec	96.59	96.60	-0.01	96.63	96.59	10939	235371
Mar	96.48	96.46	-0.02	96.49	96.46	7972	202822

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
May		96.85	+0			0	4160
Jun		96.82	-0.01			0	1525
Jul		96.81	-0.01			0	300
Aug		96.80	-0.01			0	5

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.33	93.39	+0.07	93.40	93.33	12864	106401
Sep	93.66	93.72	+0.07	93.73	93.66	7949	89557
Dec	93.80	93.85	+0.06	93.87	93.80	4888	53112
Mar	93.87	93.91	+0.06	93.92	93.85	3436	34911

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.24	98.30	+0.05	98.30	98.24	2031	49309
Sep	98.22	98.29	+0.07	98.29	98.21	4174	43696
Dec	98.11	98.14	+0.06	98.14	98.11	1440	26509
Mar	97.99	98.03	+0.06	98.03	97.99	494	10536

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		99.36	+0			0	n/a
Sep	99.19	99.19	+0	99.19	99.19	5	n/a
Dec	98.97	98.97	-0.01	98.97	98.97	90	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.84	95.86	+0.01	95.87	95.84	104	7369
Sep	95.84	95.85	+0	95.85	95.84	220	5774
Dec	95.79	95.77	-0.02	95.79	95.79	70	5613
Mar	95.71	95.69	-0.02	95.71	95.71	50	3365

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9325	0.19	0.56	0.73	0.05	0.09	0.13
9350	0.07	0.38	0.55	0.18	0.16	0.20
9375	0.02	0.22	0.39	0.38	0.25	0.29

Est. vol. total, Calls 3459 Puts 892. Previous day's open int., Calls 157925 Puts 79260

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 19		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.45	16.32	4.846	1.862	4752	5.445	20.17	487.1	408.0	21.80	4.054	1.732	3.894	2.838	329.8	2.481
Denmark	(DKr)	54.21	10	8.844	2.627	1.009	2576	2.952	10.93	264.0	221.2	11.81	2.198	0.939	2.111	1.539	178.8	1.345
France	(FFr)	61.29	11.31	10	2.970	1.141	2913	3.338	12.36	298.5	250.1	13.36	2.485	1.062	2.387	1.740	202.1	1.520
Germany	(DM)	20.64	3.807	3.367	1	0.384	980.7	1.124	4.162	100.5	84.20	4.498	0.837	0.357	0.804	0.586	68.06	0.512
Ireland	(I£)	53.70	9.906	8.762	2.602	1	2552	2.924	10.83	261.6	219.1	11.71	2.177	0.930	2.091	1.524	177.1	1.332
Italy	(L)	2.104	0.388	0.343	0.102	0.039	100	0.115	0.424	10.25	8.586	0.459	0.085	0.036	0.082	0.060	6.940	0.052
Netherlands	(Fl)	18.36	3.388	2.996	0.890	0.342	872.7	1	3.704	89.45	74.93	4.003	0.745	0.318	0.715	0.521	60.57	0.456
Norway	(NKr)	49.58	9.147	8.090	2.403	0.923	2356	2.700	10	241.5	202.3	10.81	2.010	0.859	1.931	1.407	163.5	1.230
Portugal	(Es)	20.53	3.788	3.350	0.995	0.382	975.6	1.118	4.141	100	83.76	4.475	0.832	0.356	0.799	0.583	67.71	0.509
Spain	(Pta)	24.51	4.522	3.999	1.188	0.456	1165	1.335	4.943	119.4	100	5.342	0.994	0.425	0.954	0.696	80.83	0.608
Sweden	(SKr)	45.88	8.464	7.485	2.223	0.854	2180	2.498	9.253	223.5	187.2	10	1.860	0.795	1.786	1.302	151.3	1.138
Switzerland	(SFr)	24.67	4.550	4.024	1.195	0.459	1172	1.343	4.975	120.1	100.6	5.376	1	0.427	0.960	0.700	81.35	0.612
UK	(£)	57.73	10.65	9.419	2.797	1.075	2743	3.144	11.64	281.2	235.5	12.58	2.340	1	2.248	1.639	190.4	1.432
Canada	(C$)	25.68	4.738	4.190	1.245	0.478	1220	1.398	5.180	125.1	104.8	5.598	1.041	0.445	1	0.729	84.70	0.637
USA	($)	35.23	6.499	5.748	1.707	0.656	1674	1.918	7.105	171.6	143.7	7.679	1.428	0.610	1.372	1	116.2	0.874
Japan	(Y)	30.32	5.594	4.947	1.469	0.565	1441	1.651	6.115	147.7	123.7	6.609	1.229	0.525	1.181	0.861	100	0.752
Ecu	–	40.31	7.437	6.577	1.954	0.751	1916	2.195	8.131	196.4	164.5	8.787	1.634	0.698	1.570	1.144	133.0	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5919	0.5871	-0.0050	0.5935	0.5870	16,912	78,385
Sep	0.5921	0.5911	-0.0050	0.5926	0.5911	210	3,860
Dec	-	0.6002	-	-	-	28	491

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8683	0.8638	-0.0042	0.8734	0.8626	26,125	81,618
Sep	0.8796	0.8760	-0.0037	0.8796	0.8750	877	4,186
Dec	0.8868	0.8875	-0.0042	0.8875	0.8868	153	758

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7064	0.7030	-0.0031	0.7083	0.7030	17,784	44,591
Sep	0.7133	0.7107	-0.0027	0.7133	0.7104	211	2,896
Dec	-	0.7182	-0.0026	-	0.7182	9	433

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6360	1.6372	+0.0012	1.6422	1.6324	7,310	38,084
Sep	1.6400	1.6380	+0.0044	1.6400	1.6340	123	1,333
Dec	-	1.6330	+0.0022	1.6360	-	1	111

UK INTEREST RATES

LONDON MONEY RATES

May 19	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7¼ - 6	6[illegible] - 6⅛	6[illegible] - 6[illegible]	6½ - 6⅜	6[illegible] - 6[illegible]	6[illegible] - 6[illegible]
Sterling CDs	-	-	6[illegible] - 6[illegible]	6⅝ - 6[illegible]	6½ - 6[illegible]	6[illegible] - 6[illegible]
Treasury Bills	-	-	6[illegible] - 6[illegible]	6[illegible] - 6[illegible]	-	-
Bank Bills	-	-	6[illegible] - 6[illegible]	6[illegible] - 6[illegible]	6[illegible] - 6[illegible]	-
Local authority deps.	6 - 5[illegible]	6⅛ - 6¼	6[illegible] - 6[illegible]	6[illegible] - 6⅜	6[illegible] - 6[illegible]	6[illegible] - 6[illegible]
Discount Market deps	6¼ - 6[illegible]	6⅛ - 6	-	-	-	-

UK clearing bank base lending rate 6¼ per cent from May 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on May 9, 6.1061pc. ECGD fixed rate Stg. Export Finance. Make up day Apr 30, 1997. Agreed rate for period May 26, 1997 to Jun 24, 1997, Scheme III 7.71pc. Reference rate for period Mar 26, 1997 to Apr 30, 1997, Schemes IV & V 6.450pc. Finance House Base Rate 6½pc from May 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.47	93.46	-0.01	93.47	93.45	5547	119641
Sep	93.23	93.22	-0.02	93.23	93.21	3336	111889
Dec	93.04	93.03	-0.03	93.06	93.02	5476	96589
Mar	92.93	92.90	-0.04	92.93	92.90	3060	62625
Jun	92.84	92.81	-0.05	92.85	92.81	1352	43378

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9325	0.22	0.12	0.11	0.01	0.15	0.33
9350	0.03	0.04	0.04	0.07	0.32	0.51
9375	0	0.01	0.01	0.29	0.54	0.73

Est. vol. total, Calls 2836 Puts 2400. Previous day's open int., Calls 175814 Puts 171305

EMS EUROPEAN CURRENCY UNIT RATES

May 16	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.757200	+0.002527	-5.20	7.74	35
Portugal	197.398	197.337	+0.054	0.07	2.07	-0
Spain	163.826	165.099	-0.107	0.78	1.35	-5
Finland	5.85424	5.91738	-0.00701	1.08	1.05	-7
Italy	1906.48	1929.33	-2.44	1.20	0.93	-9
Netherlands	2.16979	2.20293	+0.00192	1.53	0.60	-11
Denmark	7.34555	7.46067	+0.00526	1.57	0.56	-11
Germany	1.92573	1.95912	+0.00166	1.73	0.40	-17
Austria	13.5485	13.7893	+0.0123	1.78	0.36	-13
Belgium	39.7191	40.4360	+0.0349	1.80	0.33	-13
France	6.45863	6.59691	+0.00361	2.14	0.00	-18
NON ERM MEMBERS						
Greece	295.269	312.145	-0.571	5.72	-3.38	-
UK	0.793103	0.702604	-0.002622	-11.41	15.30	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS May	CALLS Jun	CALLS Jul	PUTS May	PUTS Jun	PUTS Jul
1.630	0.64	1.74	2.27	-	1.12	1.73
1.640	0.01	1.23	1.77	0.30	1.62	2.24
1.650	-	0.84	1.36	1.24	2.22	2.78

Previous day's vol., Calls 1,101 Puts 897 . Prev. day's open int., Calls 38,385 Puts 36,740

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS May	CALLS Jun	CALLS Jul	PUTS May	PUTS Jun	PUTS Jul
0.585	0.57	0.99	1.28	-	0.30	0.47
0.590	0.18	0.68	0.98	0.06	0.48	0.67
0.595	0.02	0.44	0.73	0.40	0.75	0.93

Previous day's vol., Calls 410 Puts 90 . Prev. day's open int., Calls 27,099 Puts 42,309

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.09	94.10	-	94.10	94.09	78,893	464,719
Sep	93.89	93.90	+0.01	93.90	93.88	95,293	460,574
Dec	93.68	93.69	-	93.70	93.68	94,639	342,679

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.72	94.72	-0.01	94.72	94.72	145	5,682
Sep	94.49	94.50	-	94.50	94.49	103	4,691

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS May	CALLS Jun	CALLS Jul	CALLS Sep	PUTS May	PUTS Jun	PUTS Jul	PUTS Sep
9675	0.04	0.05	0.04	0.06	0	0.01	0.06	0.08
9700	0	0	0.01	0.01	0.21	0.21	0.28	0.28
9725	0	0	0	0	0.46	0.46	0.52	0.52

Est. vol. total, Calls 1650 Puts 1600. Previous day's open int., Calls 469072 Puts 287196

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9850	0.01	0.04	0.08	0.21	0.25	0.44
9875	0	0.01	0.03	0.45	0.47	0.64

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 2491 Puts 1740

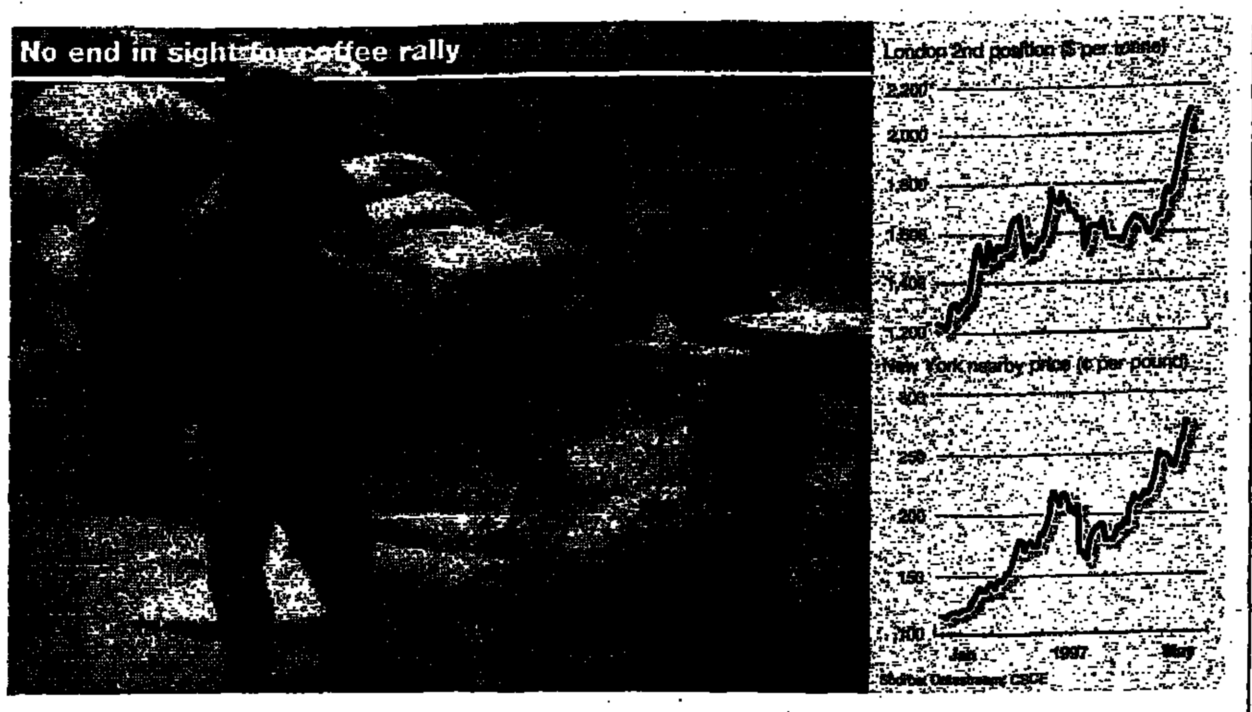
BASE LENDING RATES

	%		%		%
Adam & Company	6.25	Duncan Lawrie	6.25	●Singer & Friedlander	6.25
Allied Irish Bank (GB)	6.25	Exeter Bank Limited	7.25	●Smith & Williamson Secs	6.25
●Henry Ansbacher	6.25	Financial & Gen Bank	7.00	Scottish Widows Bank	6.00
Bank of Baroda	6.25	●Robert Fleming & Co	6.25	TSB	6.25
Banco Bilbao Vizcaya	6.25	●Guinness Mahon	6.25	United Bank of Kuwait	6.25
Bank of Cyprus	6.25	Habib Bank AG Zurich	6.25	Unity Trust Bank Plc	6.00
Bank of Ireland	6.25	●Hambros Bank	6.25	Western Trust	6.25
Bank of India	6.00	Heritable & Gen Inv Bk	6.25	Whiteaway Laidlaw	6.25
Bank of Scotland	6.25	C. Hoare & Co	6.25	Yorkshire Bank	6.00
Barclays Bank	6.25	Hongkong & Shanghai	6.25		
Brit Bk of Mid East	6.25	Investec Bank (UK) Ltd	6.25	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.25	* In administration	
Citibank NA	6.25	●Leopold Joseph & Sons	6.25		
Clydesdale Bank	6.25	Lloyds Bank	6.25		
The Co-operative Bank	6.25	Midland Bank	6.25		
Coutts & Co	6.25	NatWestminster	6.25		
Cyprus Popular Bank	6.25	●Rea Brothers	6.25		
		Royal Bk of Scotland	6.25		

COMMODITIES AND AGRICULTURE

Fear of frost is attracting bulls to a market where consumer stocks are already very tight

Arabica coffee at 20-year high



The coffee market is once again attracting superlatives. World prices for high quality arabica coffee are at their highest levels for 20 years and the rally that has driven futures prices in New York and London is being described as the longest unbroken rise for two decades.

New York has burst through peaks set in 1994 when two unprecedentedly sharp frosts in the space of a month sent futures prices up by more than 200 per cent.

The New York market is approaching the 300 cents a pound peak of 1986 and some analysts believe it could breach 1977's all-time highs.

All the previous spikes in the market were caused by frost or drought in Brazil, the world's largest coffee producer. But this time, it is the fear of frost, rather than actual frost damage, that is attracting the bulls to a market where consumer stocks are already very tight.

The cold season in Brazil is just starting and runs through to August. "If there's a frost, the market will go berserk," said one London analyst.

That view was backed by Mr Lawrence Eagles, Brazil-based analyst for brokers GNI, who said prices could go as high as $7 a pound.

The rally began at the start of this year when a strike by truck drivers and port workers in Colombia, the main arabica producer, held up supplies to the US.

Roasting companies have been scrambling to buy high quality washed arabica from Colombia and central America, and investment and hedge funds have jumped on the bandwagon.

The shortage of washed arabica, which accounts for about half of world consumption, has increased price volatility as prices respond to each new flow of coffee on to the market.

Brazil produces robustas and unwashed arabicas, which are being substituted for washed arabicas in coffee blending. "If there were to be a frost in Brazil, then any swapping from washed to unwashed would go totally out of the window," said Mr John Weaver, coffee buyer for Cafédirect, the "fair-trade" coffee group.

The rush for arabica supplies is reflected in futures market prices for immediate delivery being higher than those for delivery in coming months – a reversal of the usual state of affairs.

Robusta supplies are not tight, but the London market has followed New York's rise, even though it is still far short of the 1994 peak of more than $4,000 a tonne.

Roasters have been buying robusta as a substitute for arabica and traders have been arbitraging between New York and London – trading the huge premium of arabica to robusta contracts.

The sharp rise in prices has already hit consumers, with retail prices of top quality coffees rising by 45 per cent in France this year and fresh increases announced in the US yesterday. One London coffee analyst said retail prices had yet to reflect fully the increase in bean and futures prices. "There's more to come," he said.

The worry for producers is that coffee drinkers will switch off if prices go too high. One estimate – that a 10 per cent rise in retail prices leads to a 2 per cent drop in consumption – was discussed in London yesterday by the International Coffee Organisation's executive board, which represents the world's producing and consuming countries.

The outlook is not promising for those wishing to see prices stabilise. The ICO's latest review of the market suggests another shortfall of coffee production to consumption in the coming year, based on a relatively small Brazilian crop.

It also warns that "with cumulative purchases by investment funds, there is always the possibility that a massive liquidation of positions could trigger large falls in prices".

Alison Maitland

Doubts on Russian supply cast cloud over platinum

By Kenneth Gooding, Mining Correspondent

Questions about whether Russian supplies can be maintained dominate the platinum group metals markets, Johnson Matthey, the biggest platinum marketing organisation, points out in its latest market survey.

Russia last year provided 25 per cent of the western world's platinum and nearly 70 per cent of its palladium – both essential materials in items as automotive anti-pollution catalysts. But bureaucratic hold-ups have prevented any exports so far this year.

In the past, Russia has maintained supplies to the west only by digging deep into its stocks. JM estimates that in the past two years alone Russia has sold more than 1m troy ounces of platinum and about 5m ounces of palladium from its stocks.

Looking at the short term, JM says the absence of Russian exports is causing problems. Mr Mike Steel, JM market research director, said yesterday: "The position is getting critical, there is a real shortage of physical metal in the market."

The survey says: "The eventual resumption of Russian exports could temporarily depress platinum prices but Almaz [the Russian platinum group metals marketing agency] has said sales of platinum will be lower this year and, if so, supply and demand will be closely balanced. This is expected to keep prices within a range of $380 to $400 an ounce over the next six months."

JM says predicting the palladium price for the next six months is difficult. "The underlying strength and rising trend of demand should support the price in a band of $130 to $160 an ounce, but the prolonged suspension of vital Russian supplies and the unpredictability of sales levels when they are resumed, could result in significant excursions above and below this range."

Mr Steel said Norilsk, the complex that supplies most of Russia's platinum group metals, badly needed investment. It was questionable whether any western group would be "brave enough to put money into Norilsk".

JM says platinum demand rose 40,000 ounces to 4.88m ounces in 1996 while supply fell 2 per cent to 4.9m ounces. Palladium demand rose 30,000 ounces to 6.15m ounces; supplies by 480,000 ounces to 6.82m ounces.

Platinum 1997. Johnson Matthey, 78 Hatton Garden, London EC1N 8JP, UK. Free.

Fashion for white metal jewellery gives platinum a niche in China

Young Chinese wanting to be different from their parents, who prefer gold jewellery, have made China a significant market for platinum jewellery in the past two years, writes Kenneth Gooding. China's consumption of platinum jewellery jumped from 60,000 to 140,000 ounces last year, making it second only to Japan in the global market, says the Johnson Matthey review.

JM admits heavy promotion for diamond jewellery in China by De Beers of South Africa helped, because the diamonds were usually displayed in white metal. Mr Mike Steel, JM director of market research, says the platinum industry is now seriously considering a promotional campaign of its own.

The trend to platinum jewellery in China has been helped by growth in the fashion jewellery industry. The review says manufacturers are attracted to platinum because profit margins are higher than in the gold jewellery business. "They were also encouraged by the comparative ease with which the metal can be purchased. In contrast, gold jewellery manufacturers must obtain a quota of metal from the central bank of China. New entrants to the fashion jewellery industry . . . were able to expand their businesses by working with platinum instead."

Further fall in gold and silver

MARKETS REPORT

By Michael Peel

The repercussions of events of last week were felt in London's metals markets yesterday – with gold and silver falling further and the nickel price firming.

Mr Andy Smith, precious metals analyst for UBS, said the gold market had been "on the back foot" since the news broke that the Bundesbank might be pressured to revalue its gold reserves to fund a budget deficit.

He said speculators had been selling silver because they thought the market had lost momentum since last Wednesday. "Once the daily averages change direction the speculative money tends to follow that and it becomes a bit of a self-fulfilling event," he said.

Gold was "fixed" in the afternoon at $340.70 a troy ounce, a fall of $3.80 from Friday's fix. Silver was fixed at 466 cents a troy ounce – a fall of 17.75 cents.

Nickel rose to its highest for two months before profit-taking caused a fall to $7,855 a tonne, an overall gain of $35. The nickel rise started on Friday on news that workers at the Inco mine in Sudbury, Canada had voted to give their union a mandate to take strike action if it was not satisfied with the terms of a new contract.

Sudbury accounts for 59,000 of the 682,000 tonne annual global nickel production. "The expiry date for the old contract is May 31 so there is a bit of time yet," said an analyst. "But it's something to get market participants interested."

Metals analyst Ms Rhona O'Connell said the rally was a delayed reaction to an increased demand for nickel for the manufacture of stainless steel.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1643-44	1660.5-1.5
Previous	1650-51	1669-70
High/low		1665/1653
AM Official	1643-44	1658-59
Kerb close		1652-3
Open int.	282,929	
Total daily turnover	135,375	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1480-85	1508-10
Previous	1488-93	1515-17
High/low		1515/1505
AM Official	1488-90	1505-10
Kerb close		1505-10
Open int.	5,500	
Total daily turnover	1,783	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	613.5-4.5	625-6
Previous	619-20	630-1
High/low		627/618
AM Official	613-3.5	625-6
Kerb close		620-21
Open int.	37,584	
Total daily turnover	11,738	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7745-55	7855-60
Previous	7705-15	7815-20
High/low		7950/7800
AM Official	7771-72	7900-05
Kerb close		7855-60
Open int.	49,685	
Total daily turnover	22,925	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5705-10	5750-60
Previous	5735-45	5780-90
High/low	5705/5700	5760/5750
AM Official	5695-700	5740-45
Kerb close		5740-45
Open int.	15,370	
Total daily turnover	3,613	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1323-4	1344-5
Previous	1326-27	1346.5-47.5
High/low		1348/1338
AM Official	1319-20	1340.5-41.5
Kerb close		1342-3
Open int.	90,533	
Total daily turnover	48,555	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2558.5-8.5	2479-80
Previous	2552-54	2469-70
High/low	2548	2485/2462
AM Official	2547-48	2471-72
Kerb close		2474-75
Open int.	142,162	
Total daily turnover	83,868	

■ LME AM Official £/$ rate: 1.6387
LME Closing £/$ rate: 1.6380

Spot: 3 mths: 6 mths: 9 mths:

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	116.50	-0.50	117.60	116.10	579	1,783
Jun	116.25	-0.45	117.40	115.80	151	3,360
Jul	115.85	-0.35	117.20	115.50	3,411	32,728
Aug	113.60	-0.25	114.40	113.50	178	1,708
Sep	111.80	+0.15	112.70	111.50	356	6,263
Oct	110.20	-	110.00	110.00	22	1,016
Total					4,644	59,597

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	341.50-342.00		
Opening	343.60-343.90		
Morning fix	343.34	209.041	487.660
Afternoon fix	340.70	207.807	485.656
Day's High	343.70-344.00		
Day's Low	340.00-340.30		
Previous close	344.00-344.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.93	6 months	4.85
2 months	4.92	12 months	4.72
3 months	4.87		

Silver Fix	p/troy oz.	US cts equiv.
Spot	285.80	468.00
3 months	289.80	473.85
6 months	293.90	479.85
1 year	302.65	492.90

Gold Coins	$ price	£ equiv.
Krugerrand	353-356	215-217
Maple Leaf	-	-
New Sovereign	80-83	49-51

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	341.2	-2.7	342.5	340.2	-	-
Jun	342.2	-2.7	345.3	340.7	33,110	59,720
Aug	344.6	-2.9	348.2	343.3	3,375	21,885
Oct	347.6	-2.9	349.5	346.1	91	5,837
Dec	350.4	-2.9	353.0	349.2	1,009	22,875
Feb	353.2	-2.9	-	-	20	4,691
Total					38,446	157,188

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	391.2	-	392.9	385.5	1,299	14,658
Oct	391.8	-0.3	393.0	386.5	23	3,826
Jan	394.0	-0.3	395.0	395.0	2	1,161
Apr	396.5	-0.3	395.5	395.5	-	14
Total					1,322	19,659

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	180.50	+5.40	-	-	-	14
Jun	178.00	+5.90	178.10	169.25	821	5,824
Sep	175.00	+5.90	175.10	167.00	120	3,907
Dec	175.00	+5.90	175.10	169.50	1	388
Total					942	10,223

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	468.4	+2.4	468.0	463.5	39	102
Jul	471.3	+2.0	472.0	462.5	28,862	59,558
Sep	476.3	+2.0	477.0	467.5	1,137	6,035
Dec	483.5	+2.0	483.0	475.0	665	7,171
Jan	485.8	+2.0	-	-	1	17
Mar	491.1	+2.0	486.0	485.0	48	7,543
Total					30,867	89,153

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	21.80	-0.32	22.07	21.73	42,659	41,449
Jul	22.00	-0.18	22.15	21.85	62,798	90,780
Aug	21.94	-0.08	22.03	21.76	17,929	37,456
Sep	21.81	-0.05	21.84	21.60	3,205	26,110
Oct	21.63	-0.09	21.67	21.43	1,788	17,381
Nov	21.48	-0.11	21.52	21.26	873	15,544
Total					143,369	414,638

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	20.39	+0.04	20.39	20.06	11,850	67,946
Aug	20.24	+0.06	20.29	19.98	3,376	27,470
Sep	20.24	+0.15	20.24	19.92	1,028	10,946
Oct	20.18	+0.15	20.20	19.87	1,623	7,348
Nov	20.11	+0.13	20.11	19.98	410	5,915
Dec	20.08	+0.15	20.08	19.92	610	11,394
Total					na	na

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	57.90	-0.57	58.60	57.80	12,056	26,330
Jul	58.10	-0.47	58.50	57.90	8,855	33,759
Aug	58.55	-0.32	58.90	58.40	1,369	17,473
Sep	59.10	-0.32	59.20	59.10	914	9,948
Oct	59.60	-0.22	59.80	59.55	322	8,254
Nov	60.30	-0.32	60.40	60.30	1,029	7,241
Total					27,238	138,372

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	177.75	+4.75	178.25	175.75	7,005	24,668
Jul	179.25	+4.75	179.50	177.00	3,725	11,078
Aug	181.00	+4.75	181.00	180.00	631	7,780
Sep	182.75	+4.75	182.50	181.75	298	3,420
Oct	184.50	+4.75	183.75	183.50	188	4,102
Nov	185.75	+4.00	185.25	185.00	51	1,664
Total					12,479	84,628

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	2.190	-0.059	2.280	2.180	15,140	31,026
Jul	2.225	-0.040	2.300	2.210	7,996	29,293
Aug	2.225	-0.030	2.290	2.215	2,704	18,589
Sep	2.205	-0.025	2.260	2.195	1,975	15,899
Oct	2.200	-0.030	2.260	2.190	1,144	18,092
Nov	2.300	-0.030	2.325	2.300	585	7,819
Total					35,749	285,343

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	65.35	-0.52	65.95	65.05	17,449	37,106
Jul	64.85	-0.18	65.00	64.20	11,006	27,734
Aug	63.70	-0.03	63.85	63.45	992	9,940
Sep	62.55	+0.02	62.75	62.35	256	4,404
Oct	60.50	+0.07	60.50	60.35	171	3,098
Nov	59.75	+0.12	59.90	59.75	51	1,847
Total					30,384	94,697

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	87.50	-1.50	-	-	-	76
Jul	89.00	-2.00	90.25	89.00	50	1,790
Sep	90.40	-1.90	-	-	-	112
Nov	92.40	-1.90	93.60	92.75	252	3,768
Jan	94.40	-1.90	95.55	94.90	97	1,523
Mar	96.40	-1.90	97.50	96.75	35	730
Total					479	8,299

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	392.00	+5	392.00	385.00	60	92
Jul	394.75	+6	395.50	385.00	10,827	50,749
Sep	401.25	+5.25	402.00	393.00	2,042	12,704
Dec	412.50	+4.5	413.50	404.50	1,923	17,608
Mar	412.50	+4.5	412.50	406.00	38	1,282
May	392.00	+1	-	-	2	16
Total					14,925	82,767

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	293.25	+5	293.50	287.00	842	2,558
Jul	284.50	-	285.00	281.50	32,665	126,939
Sep	268.25	-0.75	268.50	266.25	1,993	28,115
Dec	265.50	-0.75	268.00	263.00	15,195	111,457
Mar	270.50	-1.5	270.75	268.50	452	12,030
May	274.50	-1.5	274.50	272.50	72	1,169
Total					51,810	288,449

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	86.00	-1.50	86.25	86.25	3	2
Sep	88.00	-1.50	88.00	88.00	5	29
Nov	90.00	-1.50	90.75	90.25	45	1,035
Jan	92.00	-1.50	92.50	92.50	8	119
Mar	94.00	-1.50	-	-	-	-
May	96.00	-1.50	-	-	-	-
Total					61	1,185

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	867.50	+0.75	868.00	856.00	865	1,213
Jul	866.00	+1.5	867.00	852.00	43,849	97,195
Aug	837.50	+4.5	838.00	822.50	4,685	21,655
Sep	744.00	-8.5	748.00	742.50	1,128	8,661
Nov	697.25	-12.25	708.00	696.00	12,221	49,056
Jan	700.00	-14	708.50	700.00	925	4,496
Total					63,780	184,330

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
May	23.55	-0.19	23.68	23.43	284	201
Jul	23.80	-0.17	23.84	23.60	7,550	49,819
Aug	23.98	-0.17	24.10	23.81	2,300	14,179
Sep	24.11	-0.18	24.23	23.95	1,087	8,498
Oct	24.15	-0.15	24.20	24.12	526	8,544
Dec	24.38	-0.13	24.49	24.27	2,485	17,798
Total					14,406	100,154

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
May	306.4	+3.5	306.8	299.3	1,566	2,641
Jul	291.8	+3	292.5	284.3	12,819	51,328
Aug	276.3	+2.2	276.7	269.5	2,845	16,017
Sep	257.0	+0.4	257.0	253.0	895	9,021
Oct	237.3	-2.4	237.5	235.5	739	9,727
Dec	228.5	-2.6	229.5	226.6	3,277	19,403
Total					22,972	111,874

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	30.0	-	-	-	-	-
Nov	58.0	-1.0	-	-	-	11
Mar	103.0	-4.0	-	-	-	-
Apr	111.0	-4.0	115.0	109.0	65	1,226
May	122.0	-4.0	-	-	-	-
Total					65	1,239

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
May	1300	+5	1300	1300	62	547
Jun	1250	+10	1250	1250	17	381
Jul	1170	+15	1170	1170	17	1,090
Oct	1335	-	1330	1330	3	504
Jan	1355	-	-	-	-	57
Apr	1390	-	-	-	-	-
Total					23	2,579

	Close	Prev
BFI	1284	1283

FUTURES DATA
All futures data supplied by CMS.

Tea
There was good demand for tea, The Tea Brokers' Association reports. Landed bright liquoring East Africans sold well at firm to dearer levels, but others showed an easier tendency. Plainer central Africans were irregular where sold. Offshore better liquoring Kenyas and Zimbabwes met good competition at dearer rates, but poorer types lost ground. Quotations for this sale: Landed best available 175p; good 170p; good medium 155p; medium 147p; low medium 100p (nom). The highest price realised this week was 175p for a Kenya PF1.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1003	+2	-	-	-	46
Jul	1019	+3	1021	1015	679	29,356
Sep	1037	+3	1038	1033	203	15,004
Dec	1032	+3	1033	1029	171	28,774
Mar	1041	+3	1041	1038	255	30,863
May	1052	+3	1052	1050	75	16,098
Total					1,487	140,593

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1477	+10	1480	1456	9,871	30,134
Sep	1504	+11	1507	1485	1,111	13,420
Dec	1534	+15	1534	1519	898	18,237
Mar	1559	+12	1555	1544	573	20,682
May	1581	+12	-	1579	480	8,566
Jul	1601	+12	-	-	58	502
Total					13,141	93,383

■ COCOA (ICCO) (SDR's/tonne)

May 16	Price	Prev. day
Daily	1132.99	1140.71

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	2040	+55	2110	2050	117	523
Jul	2100	+45	2190	2050	3,393	26,645
Sep	2125	+50	2213	2065	1,919	15,552
Nov	2123	+49	2210	2120	527	5,953
Jan	2100	+50	2178	2100	127	2,448
Mar	2080	+55	2130	2130	4	346
Total					6,087	51,498

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	255.25	-21.25	280.00	255.25	113	120
Jul	246.25	-6.90	257.00	243.25	6,248	15,259
Sep	220.00	-6.35	229.00	219.00	2,820	7,807
Dec	195.65	-5.35	203.00	195.00	813	4,983
Mar	183.00	-3.00	188.00	180.50	275	1,935
May	172.00	-2.00	173.00	171.00	87	382
Total					10,445	30,729

■ COFFEE (ICO) (US cents/pound)

May 16	Price	Prev. day
Comp. daily	188.64	184.91
15 day average	165.84	163.02

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	318.4	+0.1	318.8	318.0	183	12,472
Oct	308.2	+0.4	308.5	307.8	77	6,219
Dec	306.0	+0.3	306.0	305.7	101	1,866
Mar	305.7	+0.3	-	305.2	5	1,473
May	305.0	+0.1	-	-	-	683
Aug	304.3	-0.6	304.5	304.2	100	333
Total					461	23,233

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	10.98	+0.01	11.01	10.94	5,841	72,421
Oct	10.79	-0.01	10.80	10.76	1,874	41,103
Mar	10.74	+0.01	10.76	10.71	888	24,237
May	10.68	-	10.67	10.67	87	5,906
Jul	10.63	-	10.63	10.63	40	2,600
Oct	10.56	-	-	-	-	582
Total					8,830	147,364

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	72.38	-0.66	73.30	72.30	5,451	37,960
Oct	73.95	-0.43	74.55	73.80	87	3,716
Dec	74.80	-0.43	75.40	74.70	1,522	25,237
Mar	76.05	-0.40	76.60	76.00	132	3,598
May	76.75	-0.40	76.70	76.70	42	926
Jul	77.20	-0.35	77.50	77.50	-	313
Total					7,363	73,882

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	85.70	+0.80	86.75	83.25	3,708	18,234
Sep	87.85	+1.00	88.50	85.50	1,761	7,108
Nov	89.50	+0.85	90.00	87.50	240	3,317
Jan	91.50	+0.50	92.00	89.50	26	1,560
Mar	93.55	+0.55	94.00	92.70	55	1,010
May	95.55	+0.55	96.25	95.00	1	218
Total					5,785	29,603

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

May 19	May 16	month ago	year ago
2007.8	2017.4	1950.0	2147.8

■ CRB Futures (Base: 1967 = 100)

May 16	May 15	month ago	year ago
253.69	252.77		

■ GSCI Spot (Base: 1970 = 100)

May 16	May 15	month ago	year ago
202.94	199.28	189.20	206.00

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-2,250	to	759,900
Aluminium alloy	-120	to	63,060
Copper	-2,100	to	141,575
Lead	+150	to	118,250
Nickel	-234	to	49,344
Zinc	+12,200	to	436,300
Tin	+20	to	11,325

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	65.825	+0.375	65.850	65.325	4,090	31,215
Aug	65.525	+0.3	65.550	65.075	3,158	35,651
Oct	69.000	+0.15	69.100	68.625	1,226	17,095
Dec	71.000	+0.05	71.075	70.700	989	9,510
Feb	71.075	+0.075	71.175	70.775	466	5,169
Apr	72.875	+0.075	72.800	72.700	94	1,649
Total					10,003	100,289

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	81.500	+0.45	81.625	80.700	6,735	14,141
Jul	82.625	+0.225	82.925	82.100	4,650	10,218
Aug	80.250	-0.2	80.700	79.950	1,575	7,462
Oct	73.250	-0.175	73.600	72.900	588	5,492
Dec	70.950	-0.2	71.100	70.700	298	3,530
Feb	69.925	+0.1	70.000	69.450	218	1,538
Total					14,125	43,482

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
May	88.000	+0.8	88.000	86.850	102	298
Jul	89.050	+0.025	89.800	87.850	2,370	6,433
Aug	88.200	+0.375	88.750	86.950	550	1,727
Feb	74.300	+1.125	74.850	74.000	62	385
Mar	72.750	-	-	-	1	11
Total					3,085	8,860

LONDON TRADED OPTIONS

Strike price $ tonne	Calls Jun	Calls Sep	Puts Jun	Puts Sep
■ ALUMINIUM (99.7%) LME	Jun	Sep	Jun	Sep
1650	31	75	18	44
1675	19	62	30	55
1700	10	50	46	68
■ COPPER (Grade A) LME	Jun	Sep	Jun	Sep
2450	88	74	16	112
2500	55	55	33	142
2550	31	40	59	177
■ COFFEE LIFFE	Jul	Sep	Jul	Sep
1950	208	305	56	130
2000	173	277	73	152
2050	145	251	95	176
■ COCOA LIFFE	Jul	Sep	Jul	Sep
1000	42	72	23	35
1025	29	58	35	46
1050	19	47	50	60
■ BRENT CRUDE IPE	Jun	Jul	Jun	Jul
1900	143	-	-	35
1950	-	-	33	53
2000	-	-	-	74

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$19.04-9.21	+0.045
Brent Blend (dated)	$19.93-9.97	+0.21
Brent Blend (Jul)	$20.14-20.16	+0.175
W.T.I.	$21.93-1.97z	+0.15

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$217-219	+5
Gas Oil	$181-183	+4
Heavy Fuel Oil	$82-84	
Naphtha	$184-186	+4
Jet fuel	$196-198	+5
Diesel	$189-191	+5.5

■ NATURAL GAS (Pence/therm)

Bacton (Jun)	11.0-11.3	-0.05
Petroleum Argus. Tel. London (0171) 359 8792		
IPE (Jun)	11.125	-0.155

■ OTHER

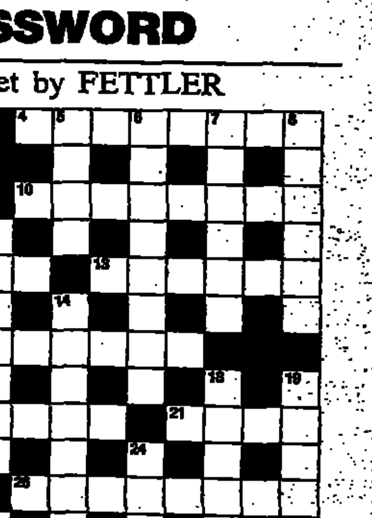
Gold (per troy oz)‡	$341.75	-2.50
Silver (per troy oz)‡	469.00c	-1.00
Platinum (per troy oz.)	$387.50	-4.75
Palladium (per troy oz.)	$170.00	-2.25
Copper	123.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.17r	
Tin (New York)	269.5	
Cattle (live weight)	89.84p	+0.31*
Sheep (live weight)	136.05p	-10.46*
Pigs (live weight)†	105.22p	-1.89*
Lon. day sugar (raw)	$268.80	-2.90
Lon. day sugar (wte)	$323.50	+0.70
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jun)♥	73.00p	+0.50
Rubber (Jul)♥	73.00p	+0.50
Rubber (KL RSS No1)	279.5x	+1.50
Coconut Oil (Phil)§	670.0y	
Palm Oil (Malay.)§	555.0z	
Copra (Phil)§	$425.0y	
Soyabeans (US)	223.0	+1.0
Cotton Outlook'A' index	79.75c	
Wooltops (64s Super)	415p	+6.0

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. w May y May/Jun♥ z Jun London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. †Based on 925 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,379 Set by FETTLER



ACROSS
1 Cowardly cur, initially given the bird (6)
4 Search for the chance of success (8)
9 To foster is a test for any woman (6)
10 Shorten the agreement (8)
12 A spot with mixed gin has power to produce that sinking feeling (8)
13 Mourn for a long gone sheriff (6)
15 Medium takes time out to confirm positively (4)
16 A bird enlivened a French gite (7)
20 Diplomat has a case . . . . (7)
21 . . . . hard and worn – possibly taking all (4)
25 Non-standard diner, where English fed on line (6)
26 Relating to rock as found in northern sea (8)
28 Lose contact with poor Natalie adding a bit of estrangement (8)
29 Although ingenious, a debtor owes nothing to it (6)
30 From beginning to end, changing exerts me (8)
31 A fellow is following a dandy (6)

DOWN
1 Joker involved FT and others in a trick (8)
2 Combine 10 etc and put into effect (8)
3 Retired eastern legislator has time to grant immunity (6)
5 Heath returns to the chamber (4)
6 Soak drunkenly utters – "Alcoholics Anonymous" (8)
7 Lass, with lad slips away (6)
8 Scrap dealer seen to be on the verge of ruin (6)
11 Whatever route that's available (7)
14 Incite chief boffin (7)
17 Making certain 14 is involved in repetition (8)
18 A coward cut back to Scottish location (8)
19 Instructs witness, returning to claim old cash (8)
22 Once broken, a steed becomes composed (6)
23 Almost a moment is, in a way, quite exact (6)
24 Frank is able and achieved (6)
27 Eyesore ? In taste it's the worst yet (4)

Solution to Saturday's prize puzzle on Saturday May 31.
Solution to yesterday's prize puzzle on Monday June 2.

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG (SIB RECOGNISED)

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
ABN AMRO Funds (u)						
4 Rue Jean Monnet, L-2180 Luxembourg 352 424949335						
Latin America Equity			$83.12	84.07	[illegible]	-
North America Equity			$93.35	94.42	[illegible]	-
Asian Tigers Equity			$82.87	83.50	[illegible]	-
Europe Equity			[illegible]	86.86	[illegible]	-
Germany Equity			[illegible]	179.41	[illegible]	-
Japan Equity			$49.45	49.94	[illegible]	-
Europe Bond			[illegible]	83.99	[illegible]	-
US Bond			[illegible]	80.11	[illegible]	-
Global Bond			[illegible]	62.82	[illegible]	-
Germany Bond B			[illegible]	112.84	[illegible]	-
Spain Bond			[illegible]	10718	[illegible]	-
Eastern Europe Equity F			[illegible]	234.85	[illegible]	-
China Equity F			$72.33	73.22	[illegible]	-
Switzerland Equity			[illegible]	103.82	[illegible]	-
Abtrust Fund Mngrs Luxembourg SA (u)						
4 Boulevard Royal L 2449 Luxembourg 00 352 227601						
Fidelity Funds - Contd.						
European Balanced			DM16.40		+0.01	1.82
Prices as at May 16						
Fleming Group (u)						
6 Route De Trèves L-2633 Senningerberg Luxembourg						
FFF American			$80.50	84.00	[illegible]	-
FFF China			$49.23	19.29	[illegible]	-
FFF Eastern Opps			$22.22	23.51	[illegible]	-
FFF Emerging Markets F			$10.55	11.18	[illegible]	-
FFF Latin American			$13.89	14.80	[illegible]	-
FFF Sterling Bond			£1.108	1.172	[illegible]	7.80
FFF US Discovery			$43.02	46.29	[illegible]	-
Mercury Asset Management - Contd.						
Eastern European			[illegible]	60.43		
European			$46.44	46.90		
Japan			$22.23	23.41		
Latin American			$11.71	12.38		
North American			$51.20	53.90		
Pacific			$18.59	19.57		
Singapore & Malaysian			$30.77	33.40		
United Kingdom			$45.85	45.08		
Mercury World Bond			$35.55	37.43		
Midland Intl Circuit Fund SICAV(u)						
UK Growth			£1.626	1.712		
European Growth			£2.021	2.128		

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

OFFSHORE INSURANCES

[illegible]

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Mkt CapEm	Yld Gr's	P/E
Allied Domecq	★	444xd	-4½	553	407½	4,813	5.6	13.3
Bulmer (HP)	★†	535	—	628	477	282.5	3.2	15.9
Burn St Dist	†	67xd	—	131	85½	33.8	7.5	14.2
Glenmorangie A	†	945	—	1040	615	120.5	1.6	25.7
B	†	1055	-5	1140	808	42.8	0.7	58.0
Grand Met	★†	550	-8	613	411½	11,703	3.7	17.8
Guinness	★†	530xd	-7	616	424	10,085	3.6	16.0
Highland	★†	330xd	—	338	320	440.2	3.2	15.5
5¾pc Cnv Bds		98	—	101½	94¼	—	—	—
Kirin Y		629	-3½	844	455½	6,620	1.0	—
Matthew Clark	★	285½	-5	693	245½	239.9	11.3	12.7
Merrydown	★†	72½	—	141	72½	7.90	7.9	8.9
Seagram C$		£23⅞	-⅛	£25⅜	£20⅛	6,458	1.2	—

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

	Notes	Price	+ or -	52 week high	low	Mkt CapEm	Yld Gr's	P/E
BG	★W	197½xd	+4	197	134	8,738	9.2	19.3
Centrica		62¼	-1¼	77½	55	2,781	—	—
International Energy	★	83½xd	-3½	108	84½	52.7	5.9	11.5

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INSURANCE - Cont.

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices

Approved by the Inland Revenue

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Cont.

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TEXTILES & APPAREL - Cont.

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt CapEm	Yld Gr's	P/E
Anglo Am Ind R	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Barlow	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gold Flds Prop R	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SA Brews	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Standard Bank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tiger Oats	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tongaat-Hulett	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion.

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LONDON STOCK EXCHANGE

US rate rise worries unnerve London stocks

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The post-election euphoria that propelled London shares to a series of new peaks evaporated yesterday. The big investing institutions preferred to sit on the sidelines until news emerges from today's crucial meeting of the US Federal Reserve's Open Market Committee.

The fear is that the Fed may signal another increase in US interest rates; it last raised rates by 25 basis points in March, a move which triggered a near 10-per cent decline in the Dow Jones Industrial Average.

Dealers said expectations of a rate rise in the US stood at 50/50, which, coupled with the worries about a further rise in UK interest rates and the forthcoming Budget, could well see London under pressure in the short to medium term.

The FTSE 100 index ended 48.7 lower at 4,645.2, only 4.5 clear of the day's low, 4,640.7, reached shortly after Wall Street opened.

Second line issues, which have failed to match the leaders' startling gains since the election, managed to escape the selling pressure imposed on the frontline stocks but still posted losses. The FTSE 250 finished the day 15.3 off at 4,510.4. The FTSE SmallCap lost 5.3 at 2,311.5.

Adding to London's unease over US rates was a nagging feeling that the new Labour government's "honeymoon period" – which has seen Footsie rise 200.2 points, or 5 per cent, since polling day – may have run its course.

A senior marketmaker at a big European securities house said: "Valuations of UK stocks are beginning to look stretched; Wall Street has stuttered and we might be looking at a correction."

There were other factors affecting London yesterday, including the closure of many European stock markets, which saw overseas interest in UK stocks down to a minimum.

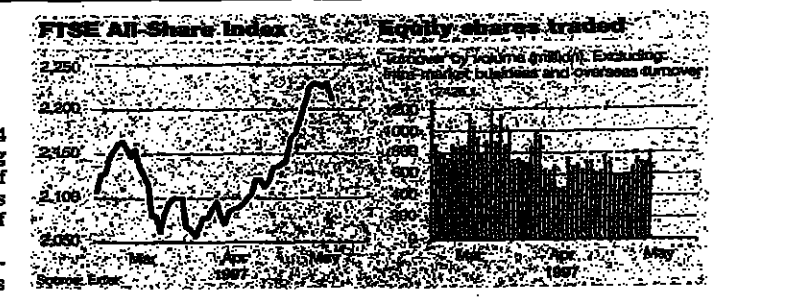
And Wall Street gave little cause for enthusiasm in London, with the Dow following last Friday's 138-point retreat with an uncertain opening. Down 20 points shortly after the start of trading, the Dow managed to claw back its earlier losses and was showing a minor gain an hour after London closed.

Turnover at 6pm was a respectable 633.6m shares with some market traders hinting at possible programme trading activity, although others said any programmes would have been on a small scale.

There was no support for equities from gilts, where losses ranged from around 11 to 14 ticks, despite the encouraging public sector debt repayment of £36m which confounded forecasts of a borrowing requirement of £1bn-plus.

Despite the steep fall in Footsie, some market participants expect more takeovers and mergers, especially in the financial sector. There were further hints that the long-mooted break up of BAT's financial services and tobacco businesses might be about to materialise.

The forthcoming flotations of Norwich Union, the general insurer, and the Halifax building society are also seen as bullish for the market in the short term.



Indices and ratios

FTSE 100	4645.2	–48.7	FT 30	2978.3	–36.0
FTSE 250	4510.4	–15.3	FTSE Non-Fins p/e	18.68	18.86
FTSE 350	2251.5	–20.6	FTSE 100 Fut Jun	4657.0	–45.0
FTSE All-Share	2211.91	–19.07	10 yr Gilt yield	7.12	7.07
FTSE All-Share yield	3.49	3.46	Long gilt/equity yld ratio	2.09	2.10

Best performing sectors
1 Extractive Industries .... +1.2
2 Gas Distribution .... +1.1
3 Tobacco .... +0.6
4 Diversified Industrials .... +0.4
5 Oil Exploration & Prod .... +0.0

Worst performing sectors
1 Pharmaceuticals .... –2.5
2 Consumer Goods .... –1.7
3 Household Goods .... –1.6
4 Alcoholic Beverages .... –1.6
5 Water .... –1.5

Norwich boost for Legals

By Peter John and Joel Kibazo

Life insurance stocks held up in a falling market ahead of tomorrow's Norwich Union flotation disclosures.

One broker now forecasts that Norwich shares will trade at around 350p when official dealing begins on June 16. That is well above the official estimates of between 220p and 265p released at the end of February and would give the company a market valuation of more than £6bn.

Legal & General, regarded as the best proxy for Norwich, was up on the day despite weakness in US and UK equities and bonds, to which the group is heavily exposed.

The shares ended the day 2 higher at 450p. The Prudential, which is the sector leader and would normally be expected to underperform a falling market, fell only 9½ to 660½p, broadly in line with the Footsie. Sun Life & Provincial added a penny at 328¼p.

Tomorrow, Norwich Union will announce the share price range for institutions and the discount at which shares will be sold to members.

Dresdner Kleinwort Benson, which is leading the global flotation syndicate, has a top of the range forecast of 300p a share. But Mr David Hudson at Credit Lyonnais Laing argues that, on his current year dividend forecast of 12p, even the members' discount price could be as high as 300p, while institutions could be offered the stock at 320p and the shares could start trading at a 10 per cent premium to that.

Most analysts believe the big gain seen in Alliance & Leicester shares since flotation, as well as the anticipated interest in Halifax shares, could see funds struggling to achieve a weighting as individuals hold on to their shares.

That pressure is compounded because big funds such as the Pru and Royal & Sun Alliance cannot buy their own shares in order to build up the insurance sector weighting, so they need to buy even more of their rivals' stock.

Royal & Sun Alliance shares dipped 10 to 489¼p ahead of first-quarter figures which many expect to be accompanied by a share buy-back operation.

Profit-taking in international carrier British Airways sent the shares falling sharply as the group posted favourable end-year figures.

By the end of the session, the stock had surrendered 24 or 3.2 per cent to 736p, after trade of 4.7m.

Improved profits at £640m were at the top end of expectations. However, several dealers suggested the stock's recent advance had gone too far and some advised clients to reduce holdings.

ABN Amro Hoare Govett was said to be among those advising clients to "take profits" although the broker indicated it believes BA had produced "excellent figures".

Charterhouse Tilney continues to rate the shares a "buy". Mr Michael Stoddart at the broker believes "the shares (strong performers in recent sessions) are begining to take account of the growth to come from cost reduction".

He added: "Profits growth should keep the shares out performing." Mr Stoddart expects the group to report profits of £740m.

Business services group Rentokil Initial continued to bask in the glow of last Friday's positive annual meeting. The shares hardened 4½ to 234p after a one-for-one share split, one of the best performers in the FTSE 100.

In a recently published 100 page report, Merrill Lynch advises clients to "accumulate" the stock. Analysts at the broker said: "Valuation is now attractive, the group is disposing of non-core businesses and confidence on the potential for growth in 1997 and 1998 should be restored by the forthcoming interims. The extent of Rentokil's cash generation and prospect of improving returns from 1997's diluted base remain considerable positives."

Confirmation that international conglomerate Lonrho is in "exploratory talks" with South African mining group JCI to create a £2bn mining group sent shares in the former ahead. They closed 5 up at 140p.

Speculative demand ahead of Tuesday's annual meeting helped Harrisons & Crosfield. The shares appreciated 7 to 111p.

Among property stocks, British Land fell 14 to 583½p following weekend press reports suggesting it is about to launch a bid £2.2bn for MEPC. A two-way pull in the latter left the shares a penny lighter at 497p.

In the retailers, Next, a strong performer last week, ran into profit-taking which left the shares 11½ off at 708½p, while it was a Kleinwort Benson downgrade that was blamed for the decline in Laura Ashley. The shares closed 2 down at 102p.

Pharmaceutical stocks were weak in response to Wall Street's 138-point slide on Friday. SmithKline Beecham fell 34 to £10.19½p and Zeneca 42 to £19.26½p. Glaxo Wellcome lost 31½ at £12.51¼p, despite an annual meeting statement that revealed sales in the first four months of the year were up 10 per cent over the same period last year, excluding currency changes.

Carlton Communications lost ground as BZW turned cautious about future levels of advertising spending. Although the investment bank retained its "buy" stance, BZW said growth in advertising spending would slow next year. The shares fell 17½ to 507p.

Lasmo lifted 3½ to 243½p helped by strong underlying oil prices.

Banking issues ran into profit-taking with Barclays leading the pack following cautious comments by Dresdner Kleinwort Benson. Kleinwort downgraded Barclays to "hold" from "buy" and the shares fell 40½ to £12.44½p.

Water utilities fell after the government set tough mandatory leakage targets as part of a 10-point action plan for a better water industry. Thames dropped 9 to 673p and Severn Trent 11 to 780p.

Three new companies came to the market yesterday. Scottish football club Heart of Midlothian began trading at a premium to its 140p placing price and ended the day at 141½p.

Downing Health venture capital trust was placed at 100p and ended the day unchanged, while Integrated Asset Management, also placed at 100p, closed at 105p on AIM.

Also on AIM, Chelsea Village ignored the football club's FA Cup win and shed 10 to 116p on a press report that the estate of Mr Matthew Harding intends to liquidate its £50m shareholding in the company. Chelsea Village also said it had agreed to buy 80 per cent of Bidgleam for £2.319m. Bidgleam is the holding company of travel group EDT.

FT 30 INDEX

	May 19	May 16	May 15	May 14	May 13	Yr ago	*High	*Low
FT 30	2978.3	3014.3	3013.6	3017.3	3018.6	2811.0	3018.6	2668.8
Ord. div. yield	3.69	3.63	3.63	3.62	3.63	3.94	4.22	3.62
P/E ratio net	18.01	18.27	18.29	18.33	18.30	16.60	18.33	15.80
P/E ratio nil	17.82	18.09	18.10	18.14	18.12	16.37	18.14	15.71

FT 30 since compilation: high 3018.6 13/05/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2996.4	2998.8	3000.5	2990.8	2986.5	2988.3	2982.5	2978.1	2977.8	3002.4	2974.3

	May 19	May 16	May 15	May 14	May 13	Yr ago
SEAQ bargains	48,374	51,082	51,311	56,580	60,979	42,502
Equity turnover (£m)†	-	2594.2	2428.9	2872.3	2521.4	2363.7
Equity bargains†	-	47,139	49,454	57,432	49,454	41,162
Shares traded (m)†	-	657.5	715.1	791.5	710.3	770.5

†Excluding intra-market and overseas turnover but including Crest turnover.
 *For 1997.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	468	Total Highs	81	Total contracts	23,149
Total Falls	1,058	Total Lows	63	Calls	10,583
Same	1,543			Puts	12,566

May 19 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4682.0	4657.0	-45.0	4702.0	4644.0	8570	68289
Sep	4725.0	4690.0	-44.0	4725.0	4692.0	22	4248
Dec		4736.0	-43.0			0	392

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4540.0	4540.0	-14.0	4540.0	4540.0	300	6138
Sep	4590.0	4590.0	-	4590.0	4590.0	300	0

FTSE 100 INDEX OPTION (LIFFE) (*4644) £10 per full index point

	4450 C	4450 P	4500 C	4500 P	4550 C	4550 P	4600 C	4600 P	4650 C	4650 P	4700 C	4700 P	4750 C	4750 P	4800 C	4800 P
Jun	228	20	183½	28½	145	37	109	51	76½	71	51½	97½	31	129	17	167½
Jul	258½	34	220	44½	181½	58	146½	72½	113½	91½	85	116	62	144½	44	179
Aug	288½	51½	229	62	191½	74½	158½	91	127½	109½	102½	135½	79½	163½	61	196½
Sep	301½	68½	282½	73	228½	95	196	112	184	130	137½	154½	113	180½	88½	208½
Dec†			334	109½			267½	144			208	186½			156	239

Calls 1,232 Puts 3,996

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4475 C	4475 P	4525 C	4525 P	4575 C	4575 P	4625 C	4625 P	4675 C	4675 P	4725 C	4725 P	4775 C	4775 P	4825 C	4825 P
Jun	203½	22½	161½	30½	124½	43	91	59½	63	80½	40½	108½	25	142½	14	181
Jul	235	38	196	48	160	61½	127	78	98	98½	73	123	53	152½	36	185
Aug	250	56	212½	88	177	81½	145½	98½	118½	119½	91½	143½	70½	172	53½	204
Sep			245	83½			179½	116			124½	158½			79½	211½
Dec†			315½	112			259	143			192½	182			144½	230

Calls 5,009 Puts 5,488 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
*	F.P.	3,539	655	532½	Alliance & Leic	608	-4½	L16.3	2.5	3.4	14.9
§	F.P.	101.9	1200	890	Aston Villa	890	-15	R8.8	1.8	1.2	48.9
-	F.P.	4,118	306½	276½	Cable & Wireless	276½	-5½	-	-	-	-
-	F.P.	-	100	97½	Caradon B	97½		-	-	-	-
§130	F.P.	16.3	150½	132½	†Comino	147½		2.25	4.6	1.9	13.8
§	F.P.	13.1	87½	70½	Donatantonio	86½	-½	0.5	φ	0.7	φ
100	F.P.	25.0	100	100	Downing Hl VCT	100		-	-	-	-
100	F.P.	14.8	148½	122½	†Dragons Hlth Clbs	147½	+10	-	-	-	27.8
§140	F.P.	14.3	147½	140½	Heart of Midlthn	141½		-	-	-	-
§	F.P.	7.18	164½	159½	†ITG	160		-	-	-	-
100	F.P.	3.15	105	102½	†Integrated As Mg	105		-	-	-	-
§110	F.P.	5.09	130½	122½	†Lady in Leisure	122½		b-	-	-	-
§	F.P.	3.69	117½	112½	Longbridge Intl	117½		-	-	-	16.4
-	F.P.	19.8	99½	97½	Mrtn Currie I&G Inc	98		M7.4	-	9.4	-
-	F.P.	6.16	93½	87½	Do Cap	91½		-	-	-	-
50	F.P.	19.2	54½	47½	†NMT	49		-	-	-	-
§10	F.P.	5.78	14¾	12	†Newmark Tech	13¾	-¼	-	-	-	-
-	F.P.	32.2	172½	157½	Partners Hldgs	172½		a-	-	-	19.9
100	F.P.	8.00	100	100	Pennine AIM VCT	100		-	-	-	-
-	F.P.	19.7	70½	38½	†Petra Diamonds	67½	-2½	-	-	-	-
-	F.P.	0.89	45½	13½	†Do Warrants	41½	-2½	-	-	-	-
143	F.P.	21.8	155½	150	Qualceram	155½		22.6%	-	1.5	-
§117	F.P.	16.2	124½	120½	Salehurst	122½		L3.75	1.3	3.8	19.6
§100	F.P.	10.8	108½	102½	†Soccer Investmnt	106½	+2	-	-	-	-
§3	F.P.	5.76	4	3¾	Versatile Group	4		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	May 16	% chg on day	May 15	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1585.79	-1.8	1598.48	2358.53	2.17	-	2376.98	1488.80
Regional Indices								
Africa (14)	1810.87	-1.5	1838.05	3164.33	4.91	51.81	3197.52	1724.86
Australasia (6)	1790.74	-0.6	1801.01	2628.82	2.97	25.25	2877.22	1757.55
North America (11)	1473.58	-1.7	1499.78	2093.05	0.98	206.00	2126.45	1325.84

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	May 19	Day's chge%	May 16	May 15	May 14	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4645.2	-1.0	4693.9	4681.2	4686.9	3778.2	3.51	2.06	17.28	74.25	1976.63
FTSE 250	4510.4	-0.3	4525.7	4521.9	4529.3	4522.3	3.60	1.58	22.05	66.44	1875.89
FTSE 250 ex IT	4525.8	-0.3	4541.0	4538.0	4544.7	4561.4	3.73	1.61	20.84	69.13	1887.73
FTSE 350	2251.5	-0.9	2272.1	2268.7	2269.7	1913.4	3.53	1.97	18.04	35.43	1956.43
FTSE 350 ex IT	2251.7	-0.9	2272.4	2267.1	2269.9	-	3.55	1.98	17.79	3.14	1003.24
FTSE 350 Higher Yield	2194.3	-0.9	2213.7	2207.9	2205.5	1838.9	4.52	1.85	14.97	42.64	1615.12
FTSE 350 Lower Yield	2313.9	-0.9	2335.6	2330.9	2339.5	1995.2	2.49	2.19	22.86	27.62	1645.76
FTSE SmallCap	2311.45	-0.2	2316.79	2314.83	2316.80	2240.04	3.03	1.70	24.25	28.16	1954.90
FTSE SmallCap ex IT	2306.44	-0.2	2312.03	2310.99	2311.26	2237.36	3.25	1.78	21.62	30.29	1966.66
FTSE All-Share	2211.91	-0.9	2230.98	2225.99	2228.79	1898.47	3.49	1.95	18.38	34.22	1950.49
FTSE All-Share ex IT	2211.82	-0.9	2231.27	2226.30	2228.88	-	3.53	1.97	17.99	2.99	1003.04

FTSE Actuaries Industry Sectors

	May 19	Day's chge%	May 16	May 15	May 14	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4288.69	-0.7	4319.13	4302.99	4336.07	3516.80	3.55	2.02	17.45	85.94	1920.02
12 Extractive Industries(5)	4452.43	+1.2	4399.71	4337.08	4307.34	4581.13	3.54	2.39	14.83	104.80	1360.97
15 Oil, Integrated(3)	4395.80	-1.1	4443.73	4438.47	4484.32	3538.55	3.78	1.96	16.90	90.91	2023.30
16 Oil Exploration & Prod(12)	3630.23	....	3628.82	3585.97	3599.60	2465.99	1.59	2.22	35.42	36.78	2223.39
20 GEN INDUSTRIALS(268)	1927.04	-0.5	1936.59	1938.38	1942.94	2125.97	4.15	1.91	15.80	32.70	1095.97
21 Building & Construction(35)	1383.36	-0.5	1390.65	1392.31	1392.95	1223.95	3.13	1.95	20.45	23.61	1202.04
22 Building Matls & Merchs(30)	1854.57	-0.9	1871.05	1869.85	1874.52	1958.41	4.32	2.77	10.43	34.84	976.53
23 Chemicals(26)	2330.38	-1.0	2354.07	2347.72	2338.88	2556.09	4.50	1.46	18.98	49.97	1155.86
24 Diversified Industrials(16)	1388.01	+0.4	1382.13	1372.78	1361.47	1739.16	5.23	1.97	12.13	38.42	822.26
25 Electronic & Elect Equip(38)	2059.79	-0.7	2073.27	2085.29	2109.14	2451.15	3.82	1.56	20.93	14.36	1101.22
26 Engineering(69)	2499.69	-0.5	2511.63	2520.65	2525.29	2463.20	3.39	2.46	14.98	31.12	1566.39
27 Engineering, Vehicles(13)	2775.77	-0.4	2787.43	2764.27	2804.00	3049.72	4.01	‡	‡	38.40	1485.85
28 Paper, Pckg & Printing(27)	2201.17	-0.4	2209.76	2247.85	2274.45	2780.32	4.75	1.87	14.08	41.88	954.63
29 Textiles & Apparel(14)	1042.51	-0.5	1047.62	1051.06	1057.60	1395.32	6.76	0.96	19.29	33.10	680.46
30 CONSUMER GOODS(84)	4499.09	-1.7	4576.54	4582.30	4551.09	3556.52	3.38	1.81	20.42	84.53	1736.21
32 Alcoholic Beverages(7)	3187.46	-1.6	3236.61	3229.54	3246.19	2862.60	4.16	1.88	16.01	76.55	1211.97
33 Food Producers(25)	2939.13	-1.1	2972.31	2972.12	2983.94	2456.48	3.76	1.85	18.03	58.89	1388.43
34 Household Goods(17)	3024.40	-1.6	3074.22	3081.57	3062.98	2676.29	3.43	2.30	16.82	54.14	1243.53
36 Health Care(15)	2208.41	-0.7	2224.89	2218.53	2222.00	2100.99	2.69	1.63	28.50	31.74	1384.23
37 Pharmaceuticals(18)	7226.73	-2.5	7414.16	7456.46	7343.56	5078.53	2.56	1.71	28.52	104.77	2536.93
38 Tobacco(2)	4661.62	+0.6	4633.96	4558.31	4539.84	4311.68	5.81	1.87	11.49	147.58	1240.86
40 SERVICES(271)	2693.07	-0.7	2711.37	2709.78	2712.80	2525.63	2.90	1.89	21.70	31.96	1445.51
41 Distributors(30)	2739.09	-0.2	2744.32	2740.21	2736.40	2935.40	3.35	1.94	19.20	39.26	1044.90
42 Leisure & Hotels(31)	3481.76	-0.7	3505.68	3515.93	3505.59	3190.81	2.62	1.77	26.85	69.13	1926.98
43 Media(44)	4317.88	-1.0	4361.25	4355.68	4371.83	4269.26	2.27	1.98	27.89	55.45	1602.21
44 Retailers, Food(15)	2139.95	-0.9	2158.97	2143.91	2149.21	1990.69	3.82	2.21	14.80	39.11	1420.08
45 Retailers, General(53)	2091.79	-0.5	2102.09	2108.85	2132.53	2061.38	3.20	2.08	18.81	17.96	1232.56
47 Breweries, Pubs & Rest.(22)	3306.56	-0.2	3313.39	3333.20	3322.72	3112.07	3.34	2.19	17.10	33.86	1639.39
48 Support Services(54)	3066.69	+0.2	3061.14	3048.67	3008.35	2402.21	1.70	2.62	28.09	21.86	1994.56
49 Transport(22)	2844.08	-1.4	2883.18	2858.22	2850.69	2450.38	3.46	1.36	26.63	30.52	1229.12
60 UTILITIES(31)	2817.07	-0.7	2837.55	2826.29	2810.32	2387.58	4.87	1.56	16.41	16.92	1285.70
62 Electricity(9)	3129.04	-0.7	3149.92	3141.17	3130.07	2749.79	5.54	2.23	10.13	22.08	1728.30
64 Gas Distribution(2)	1744.48	+1.1	1725.98	1690.65	1657.01	1213.98	6.99	‡	‡	68.13	996.40
66 Telecommunications(8)	2298.09	-0.9	2319.22	2310.92	2298.37	2030.04	3.82	1.71	19.11	0.98	1085.07
68 Water(12)	2586.62	-1.5	2625.22	2637.11	2636.80	2061.92	5.76	2.33	9.32	0.00	1496.01
69 NON-FINANCIALS(674)	2223.80	-0.9	2244.14	2242.02	2240.85	2015.90	3.60	1.86	18.68	32.72	1759.78
70 FINANCIALS(106)	4377.01	-0.8	4410.22	4381.05	4411.37	2954.00	3.29	2.38	15.96	84.48	1973.97
71 Banks, Retail(8)	6612.57	-0.7	6660.58	6583.57	6647.94	4020.92	3.04	2.65	15.52	129.00	2263.38
73 Insurance(18)	1804.38	-1.1	1824.84	1834.67	1825.53	1562.13	4.80	2.52	10.33	54.22	1441.88
74 Life Assurance(7)	5136.95	-0.7	5173.41	5165.95	5210.17	3551.91	3.43	1.96	18.56	121.00	2243.83
77 Other Financial(29)	3258.89	-0.6	3279.50	3297.96	3333.20	2750.49	3.30	1.89	20.08	38.26	1928.07
79 Property(44)	1989.25	-0.7	2003.90	1999.59	1990.60	1569.18	3.21	1.31	29.72	13.78	1266.68
80 INVESTMENT TRUSTS(127)	3380.10	-0.3	3391.96	3383.45	3398.52	3252.70	2.18	1.13	50.67	25.37	1206.55
89 FTSE All-Share(907)	2211.91	-0.9	2230.98	2225.99	2228.79	1898.47	3.49	1.95	18.38	34.22	1950.49
105 FTSE All-Share ex IT(780)	2211.82	-0.9	2231.27	2226.30	2228.88	-	3.53	1.97	17.99	2.99	1003.04
FTSE Fledgling	1297.03	-0.1	1297.69	1296.46	1298.58	1261.85	3.01	0.78	53.29	16.38	1397.37
FTSE Fledgling ex IT	1313.86	....	1313.92	1312.73	1314.60	1272.16	3.31	0.75	50.12	15.36	1416.14
FTSE AIM	1085.1	-0.4	1089.6	1087.0	1088.4	-	0.94	1.04	80.00†	0.18	991.27

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4669.4	4675.9	4687.5	4670.0	4663.4	4662.1	4652.9	4644.9	4644.6	4687.7	4640.7
FTSE 250	4517.5	4517.5	4520.8	4520.8	4518.4	4517.8	4516.9	4513.4	4510.6	4522.2	4510.1
FTSE 350	2261.7	2264.2	2269.1	2262.3	2259.4	2258.9	2255.2	2251.7	2251.3	2269.2	2250.0
FTSE SmallCap	2315.67	2315.02	2314.75	2313.46	2313.18	2312.85	2312.71	2312.00	2311.40	2315.69	2311.33
FTSE All-Share	2221.47	2223.74	2228.13	2221.80	2219.22	2218.69	2215.32	2212.11	2211.73	2228.21	2210.56

Time of FTSE 100 Day's high: 9:50 AM Day's low: 3:13 PM. FTSE 100 1997 High: 4645.2 (19/05/97) Low: 4056.6 (10/01/97).
Time of FTSE All-Share Day's high: 9:50 AM Day's low: 3:13 PM. FTSE All-Share 1997 High: 2211.90 (19/05/97) Low: 1969.76 (02/01/97).
Further information is available on http://www.ftse.com or contact FTSE International on +44 (0)171 448 1810.

† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown.
‡ Values are negative. Name change: Scottish TV to Scottish Media Group (FTSE 250) & (43).

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	1,100	495½	-4½
ASDA Group†	6,200	119	
Abbey National†	4,200	859½	-1½
Airtours	368	981	+4½
Albert Fisher	1,000	39½	
Alliance & Leicester	3,400	608	-4½
Allied Domecq†	727	444xd	-4½
Anglian Water	432	692	-6½
Argos	127	614½	+3
Arjo Wiggins	488	173	-7
Assoc. Brit. Foods†	583	547	-12½
Assoc. Brit. Ports	177	285	-1
BAA†	1,800	531	-4
BAT Inds.†	5,000	563½	+4
BBA	156	320½	-1½
BICC	889	188	-2
BOC†	2,100	994xd	-11
BG†	8,100	197	+4
BP†	4,400	719	-5
BPB	414	330½	-2
BSkyB†	3,000	574	-9
BT†	9,000	450½	-4½
BTR†	9,300	221	-1½
Bank of Scotland†	1,200	413½	-2
Barclays†	2,800	1244½	-40½
Bass†	2,700	818	+2
Blue Circle†	1,300	409½	-4
Booker	187	310½	-1½
Boots†	4,100	707½	-21
Britannic	280	883½	-5½
Brit. Aerospace†	972	1251½	-20
British Airways†	1,700	736	-24
British Biotech	511	257½	-3
British Energy	4,800	140½	-3½
British Land†	1,400	583½	-14
British Steel†	5,600	148½	+¼
Burmah Castrol†	2,000	1021½	-19½
Burton†	8,500	134¾	-5¾
Cable & Wire†	4,100	501½	-5½
Cadbury Schweppes†	2,000	532½	-11
Caradon	1,500	217½	
Carlton Comms.†	1,800	507	-17½
Centrica†	2,700	62¼	-1¼
Chubb	85	444½	+½
Coats Viyella	194	128½	
Comm. Union†	1,600	732½	-1
Compass	4,300	658	+1½
Cookson	3,800	227	+7
Courtaulds	620	316½	-1
Dalgety	686	283½	
De La Rue	1,200	498	-3½
Dixons†	2,300	486	
EMAP	1,100	718½	-3
EMI†	871	1233½	-15½
Electrocomps	388	397½	-1½
Energy Group†	1,300	533½	-2
Enterprise Oil†	2,300	679½	-4½
FKI	1,300	175	-1
Foreign & Col. I.T.	730	160½	-1¼
Gen. Accident†	641	843½	-8
General Elect.†	3,300	349½	-4
Glaxo Wellcome†	5,000	1251½	-31½
Glynwed	1,700	263	+7
Granada†	1,400	920	-5
Grand Met.†	8,800	590	-8
GUS†	1,500	681½	+4½
Greenalls	519	490½	-3½
GRE†	3,400	295½	-4½
GKN†	283	949½	-5
Guinness†	4,100	560	-7
HSBC (75p shs)†	2,200	1787	-1
Hammerson	110	447½	+2½
Hanson†	1,800	324½	-1½
Harrisons Crosfield	306	111	+7
Hays†	869	565	-8½
Hillsdown	6,200	177	-1½
Hyder	203	837½	-15
IMI	155	377½	+1½
ICI†	4,700	788	-7½
Imperial Tobacco†	858	408½	-1½
Inchcape	1,600	290	-7
Johnson Matthey	430	480	-2½
Kingfisher†	2,200	707	-16½
Kwik Save	914	268½	
Ladbroke†	4,800	244½	-4
Land Securities†	1,400	869	-15
Laporte	1,900	648½	-3½
Legal & General†	2,400	450	+2
Lloyds TSB†	6,600	615½	-5½
LASMO†	1,900	243½	+3½
Lonrho	1,500	140	+5
LucasVarity†	4,700	200	-1
MEPC	887	497	-1
MFI	4,900	123½	-2
Marks & Spencer†	5,300	508	+5
Mercury Asset Mngt†	685	1348½	-21
Morrison (Wm.)	280	158½	-½
NFC	902	126½	-3
NatWest Bank†	3,700	798	-3½
National Grid†	1,400	225	-1
National Power†	1,400	562½	-1
Next†	774	708½	-11½
Northern Foods	1,200	199	-2½
Orange†	1,000	218	
Pearson†	1,700	770	-13½
P & O†	682	636½	-9½
Pilkington	148	118	-3
PowerGen†	4,500	698	+7
Premier Farnell	815	484	+12½
Provident Financial	1,800	580½	-5
Prudential†	10,000	583½	-8½
REXAM	286	273	-1½
RMC†	274	973½	-18½
RTZ†	1,800	1057½	+15
Racal	1,300	280½	+1½
Railtrack†	1,300	426½	-5
Rank Group†	1,500	440½	-7½
Reckitt & Colman†	423	928	-3½
Redland	480	325½	-3½
Reed Intl.†	1,300	622½	-4
Rentokil Initial†	2,300	234	+4½
Reuters†	5,700	663½	-5
Rolls Royce†	3,400	246	
Royal & Sun Alliance†	3,500	489¼	-10
Royal Bk Scotland†	979	637xd	+1½
Safeway†	2,800	359	
Sainsbury†	4,700	367xd	-2
Schroders†	175	1767½	-10
Scottish & New.†	786	705	+2
Scot. Hydro-Elec.	1,400	396	-1½
Scottish Power†	2,100	384	-3½
Sears	300	79½xd	+2¼
Securicor	538	294	
Severn Trent†	2,700	780	-11
Shell Transport†	2,500	1151	-17
Siebe†	2,300	980	-10
Slough Ests	287	316½	
Smith (W.H.)	386	468	-2
Smith & Nephew†	2,600	172½	-3½
SmKl Beecham†	3,100	1019½	-34
Smiths Inds.†	800	755½	-5
Southern Elect.	795	409½	-7
South West Water	300	666	-40½
Stagecoach	232	638½	+17½
Standard Chartd.†	873	1007½	+7½
Storehouse	1,200	215½	
T&N	982	135½	
TI Group†	865	505	-9½
Tarmac	2,600	127½	-2½
Tate & Lyle†	1,300	459½xd	
Taylor Woodrow	134	200½	-2½
TeleWest Comms	158	75	-2
Tesco†	10,300	352	-3
Thames Water†	1,400	673	-9
Thistle Hotels	40	168½	
Thorn	99	160	
Tomkins†	5,800	276	+1½
Unigate	924	440½	+1
Unilever†	1,100	1679	-12½
United Biscuits	844	228	-5
Utd. News & Media†	3,200	757½	-3
United Utilities†	488	666½	-12
Vodafone†	12,600	272½	-3½
WPP	2,900	249	-1½
Wessex Water	723	386	-2½
Whitbread†	1,700	784½xd	+3½
Williams Hldgs.	2,200	313½	
Wimpey	273	136	
Wolseley†	615	464	-6½
Yorkshire Elect	0	927½	
Yorkshire Water	1,500	365½	-7
Zeneca†	1,500	1926½	-42

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 index constituent. All trades are rounded. Source: Extel, part of FT Information.

هكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

INDICES

US INDICES

Financial	93.08	94.78	94.91	97.25 (10/3)	80.75 (2/1)	97.25 (10/3/97)	7.13 (4/8/74)
NYSE Comp.	432.44	437.65	435.60	437.85 (15/5)	389.47 (11/4)	437.85 (15/5/97)	4.84 (25/4/42)
Amex Comp.	586.72	583.47	581.97	603.63 (10/3)	541.20 (28/4)	617.51 (23/5/96)	524.20 (16/7/96)
NASDAQ Cmp	1340.73	1353.58	1335.55	1398.06 (22/1)	1201.00 (2/4)	1398.06 (22/1/97)	54.87 (3/10/74)

■ RATIOS

	May 9	May 2	Apr 25	Year ago
Dow Jones Ind. Div. Yield	1.71	1.73	1.82	2.20
	May 14	May 7	Apr 30	Year ago
S & P Ind. Div. yield	1.68	1.72	1.75	1.92
S & P Ind. P/E ratio	23.89	23.33	22.89	21.26

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Hewlett-Pk	17,983,100	52¾	-6⅞
GEC	8,496,400	60½	-1½
AT & T	7,532,100	54⅝	-2⅝
Nike B	6,874,100	54⅞	-2⅞
Ryl Dutch	5,048,300	188¾	-1¼
Exxon	4,862,400	58⅛	-¼
CocaCola	4,720,400	66⅞	-1
Gen Cable	4,462,200	21¾	+¾
Mercury Fn	4,189,000	2⅛	+⅛
Compaq	3,880,800	94	-1⅛

■ TRADING ACTIVITY

● Volume (million)

	May 16	May 15	May 14
New York SE	485.778	459.143	498.747
Amex	(u)	(u)	(u)
NASDAQ	574.548	621.354	634.470
NYSE			
Issues Traded	3,344	3,341	3,322
Rises	977	1,285	1,475
Falls	1,439	1,173	999
Unchanged	928	883	848
New Highs	95	105	162
New Lows	10	7	8

■ TOKYO - MOST ACTIVE STOCKS: Monday, May 19, 1997

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Keisei Elect Ry	7.3m	696	+27	Nomura Secs	4.4m	1440	+20
Nippon Steel Cp	7.0m	364	-5	Bk Tk-Mitsubishi	4.3m	2130	+20
Denki Kagaku Kgy	6.9m	316	+36	Toyota Motor	4.2m	3650	+80
Tokyu Land Corp	5.7m	446	+17	Sakura Bank	3.9m	700	-15
NKK Corp	4.5m	260	-3	Mitsubishi Hvy	3.7m	858	+1

4 pm close May 19

NEW YORK STOCK EXCHANGE PRICES

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]										

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

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- G -

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- H -

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[illegible]

NYSE PRICES

4 pm close May 19

Continued from previous page

[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.
d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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AMEX PRICES

4 pm close May 19

[illegible]

NASDAQ NATIONAL MARKET

4 pm close May 19

[illegible]

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$4.375	-2.125	24000	8.25	4.375	Esprit Telecom ADS	US$5.5		0	12.25	5.375
Artwork Systems	US$10.75	+0.125	40065	11	9.5	Innogenetics	US$11.375		21500	12.75	10.375
Chemunex	FFr16		0	18	16	Mercer Internatl.	US$10		0	11.75	8.125
Dr Solomon's ADS	US$22.625	-0.125	0	26.5	18.875	Pa.Tech	US$4.5		0	6.125	4.25

Prices for 16/5/97. Market closed 19/5/97. Please note that mid prices are now used to calculate highs and lows.

Information about EASDAQ can be found on the Web site at HTTP://WWW.EASDAQ.be
EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9990)

Dow steady ahead of rate ruling

AMERICAS

Wall Street trading was mixed at midsession as unusually light volume was blamed on anticipation of today's ruling on interest rates, *writes Jane Martinson in New York.*

The Dow Jones Industrial Average rose 10.72 to 7,205.39 at 1pm, after losing most of last week's record breaking gains on Friday. Volume was much lower than average with 180.17m shares traded.

Analysts remained divided on whether the Federal Reserve's Open Market Committee would lift interest rates at today's meeting. Bond prices provided little help, with the 30-year benchmark note unchanged at 96$\frac{19}{32}$ at midsession.

Mr Joseph Battipaglia, chief investment strategist at Gruntal & Co. expected the day to remain quiet as most investors had already placed their bets on the outcome of today's meeting. "Friday was really wash-out day," he said. The broader based S & P 500 edged up 2.31 to 832.06.

Investor sentiment over technology stocks continued to be mixed. After leading Friday's decline, some stocks continued to suffer from profit-taking and fears over second-quarter results.

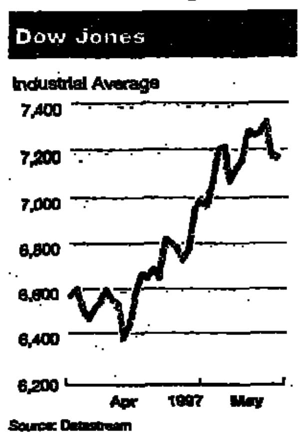
IBM was among a few blue chips to suffer. It fell almost 1 per cent or $1½ to $168⅞. One analyst blamed profit-taking after the group flirted with its all-time high last week.

The technology-driven Nasdaq composite eased 0.12 to 1,340.61. Oracle, the world's second largest software company, fell almost 1 per cent or $⅜ to $44 after announcing an agreement to buy a controlling interest in Navio Communications, a software developer. Netscape, which set up Navio, rose 4 per cent or $1¼ to $30⅞. The Russell 2000 index, which tracks smaller companies, rose 0.27 to 365.55.

ITT held steady at $59⅞ after the group announced an alliance with FelCor, a real estate investment trust, to help expand its Sheraton hotel chain. The deal was part of its defence against a hostile $55 a share offer from Hilton Hotels.

● Canada was closed for Victoria Day.

Dow Jones



Source: Datastream

Rains perk up Santiago

Trading in most Latin American centres was muted ahead of today's Federal Open Market Committee meeting in the US.

SANTIAGO pushed higher but dealers said this mostly reflected book movements by traders rather than genuine buying pressure. Sentiment was said to have perked up thanks to heavy weekend rain which, it was hoped, would signal an end to the recent drought. At midsession, the IPSA index was up 0.89 at 1290.74.

MEXICO CITY was modestly easier at midsession, dipping 2.24 to 3,888.12 on the IPC index. Traders said the market was moving sideway in spite of hopes for some positive GDP data. "There could well be some boost to sentiment later today from the first quarter GDP numbers," said one.

Late recovery in $ takes Nikkei to new high

ASIA PACIFIC

A late decline in the yen against the dollar took TOKYO from early currency-linked weakness to a second consecutive closing high for 1997, *writes Bethan Hutton in Tokyo.*

The Nikkei 225 average closed at 20,489.75, up 165.02. Friday's fall on Wall Street put a damper on morning trading, and the yen's strength also held the market back – the dollar slipped below the Y115 level at one stage – but confidence increased as the dollar headed back towards Y116 later in the day.

The Nikkei 225 moved between 20,205.62 and 20,561.66; selling kicked in above the 20,500 level. The Topix index of all first-section stocks rose 9.54 to 1,512.83, and the capital-weighted Nikkei 300 index by 1.93 to 292.92.

Domestic demand-related issues were the main focus of attention, as the currency fluctuations led to caution on export-oriented stocks. However, some exporters strengthened in spite of movements in the currency markets: Toyota Motor was up Y80 at Y3,650, and Honda added Y100 to Y3,750.

The real estate and retail sectors benefited in particular from the move to domestically-oriented stocks. Mitsubishi Estate gained Y10 to Y1,660, Mitsui Fudosan Y30 to Y1,500, Sumitomo Reality Y15 to Y973, and Heiwa Real Estate Y15 to Y708.

The upmarket department store chain, Mitsukoshi, made the strongest gains among the retailers with a rise of Y42 to Y890, but the other end of the market also did well: Seven-Eleven Japan, the convenience store chain, rose Y110 to Y8,810. Marui increased Y40 to Y2,230, Takashimaya Y10 to Y1,630, and Ito-Yokado Y50 to Y6,760.

In financials, the scandal-struck Nomura gained Y20 to Y1,440 in fairly heavy trading, but Dai-Ichi Kangyo Bank fell Y50 to Y1,470 on reports that it had made Y30bn of loans to the corporate racketeer at the heart of the current Nomura scandal. Other major banks strengthened. Bank of Tokyo-Mitsubishi added Y20 to Y2,130, Sumitomo Bank Y70 to Y1,610, and Fuji Y30 to Y1,560.

Volume improved to an estimated 489m shares, from 455m on Friday. Gainers outnumbered losers by 685 to 449, with 128 unchanged.

In Osaka, the OSE gained 163.27 to close at 21,154.83, in volume of just under 30m shares. In London, the ISE/Nikkei 50 index rose 4.92 at 1,595.60.

BANGKOK rebounded 2.8 per cent as investors welcomed news of a Bt50bn government support fund. At the close the SET, which at the end of last week was sitting on a five-week decline of 22 per cent, added 15.91 to 577.10.

The announcement of the support fund was the main prop, but there was help too from a better day for the baht and central bank remarks about improved Thai exports in March. Turnover was again below average at Bt4.1bn.

MANILA continued to slide, with the composite index falling 66.77 or 2.6 per cent to 2,509.36.

Traders said the central bank's determination to defend the peso with high money market rates made for weak sentiment and low volume. "Comparisons between us and Thailand continue to hound the market," said one broker.

JAKARTA moved lower in dull volume on election concerns plus talk of poor first-quarter results. The composite index came off 4.52 or 0.7 per cent to 652.55.

Campaign violence over the weekend, and talk that a leading construction group – Semen Gresik, which fell Rp275 to Rp5,300 in 2m shares – was set to turn in disappointing figures set the tone for the day.

SEOUL broke through to a new high for the year, helped by a strong showing for banks amid talk of imminent financial reforms. The composite index rose 14.95 or 2.1 per cent to 721.20.

The banks sector jumped 5.5 per cent. Commercial Bank gained Won310 to Won4,200 and Korea First added Won270 at Won3,690. Daewoo Securities ended Won800 higher at Won11,400.

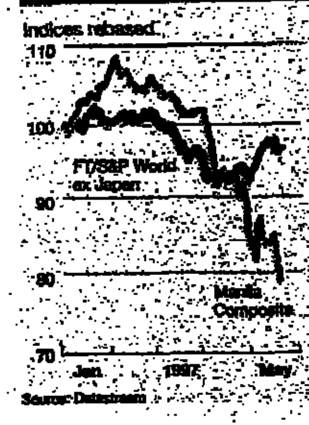
HONG KONG, paying scant attention to Wall Street's heavy overnight falls on Friday, continued to move steadily ahead. The Hang Seng index, seen recently as something of a safe haven in a region beset by currency turmoil, closed up 46.45 at 14,108.82 after reaching a session high of 14,145.

SHENZHEN's B shares, designed for foreign investors, attracted speculators after last week's 11.2 per cent drop in the market, and last Friday's 7.8 per cent drop on the suspension of several companies in the A share market. Bargain hunting lifted the B share index by 7.79 or 4.9 per cent to 166.85 in turnover down from HK$122.7m to HK$105.9m.

A shares in the large-cap Shenzhen Development Bank, suspended in the morning after the bank announced that it might have been involved in stock trading irregularities, closed only Yn0.17 lower at Yn36.97. The A share index rose 5.07 to 472.43.

DHAKA's DSE index rose 47.50 or 4 per cent to 1,236.96 after Sunday's holiday and a 3.9 per cent gain on Saturday. Brokers feared a nervous reaction today.

Philippines



Source: Datastream

Bourses subdued by approach of Fed meeting

EUROPE

Most senior bourses were closed for Whit Monday. Others were subdued by last Friday's Wall Street losses and the approach of today's Federal Reserve meeting in Washington.

MILAN traded quietly in a session muddied by a large number of shares going ex-dividend. At the close, the Mibtel was off 73 at 12,427, but the index would have been marginally higher but for dividend payments going through the market.

Banks were active. BCI came off L319 to L3,550 ahead of Cariplo's announcement of a strategic partner and there was weakness, too, among other banks keen to take a stake in the savings bank. Ambroveneto shed L264 to L4,350 and Istituto Mobiliare eased L430 to L15,750. All three shares went ex-dividend.

San Paolo, also ex-dividend, shed L504 to L10,610 after its privatisation offer was fixed at a minimum price of L10,850 per share. Generali continued to lag, dipping L73 to L12,427 in the face of a strong buy recommendation from NatWest Securities.

MADRID stayed in Friday's profit-taking mode, even although the Spanish prime minister, Mr José Maria Aznar, lowered the country's inflation target from 2.6 per cent to 2.2 per cent for 1997. Interest rate sensitive stocks, which had led the recent rally, had little left and the general index closed 2.05 lower at 541.86.

Banks took the biggest sector impact, Argentaria falling Pta130 or 1.8 per cent to Pta7,000 and BBV by Pta110 to Pta10,280. The engineering group, Abengoa, reported an 18 per cent gain in first-quarter profits and rose Pta180 to Pta6,470.

HELSINKI saw Nokia down FM5 at FM334 after the US tech stocks' retreat last Friday. Banks and forestries both lost more than a percentage point and the Hex index closed 35.42 or 1.2 per cent lower at 3,029.12.

There was some positive action in smaller stocks: Santasalo, the engineer, rose FM2 to a new high of FM60 ahead of Friday's first-quarter figures.

TEL AVIV took profits after a four-week gain of 7.3 per cent, the Mishtanim index easing 1.80 to 264.04 as turnover rose from Shk115m to Shk126m. However, brokers still expected the key index to attack its February 18, all-time closing high of 270.57.

WARSAW rose for the third consecutive session. The Wig index closed 91.9 higher at 16,474.2. Espebepe, the construction company, surged 0.65 zlotys to 7.45; its creditors voted in a debt reconstruction deal last Friday.

ATHENS broke through to a record closing high. Local investors, spurred by recent interest rate cuts, were said to have continued to switch out of bonds and into equities. At the close, the general index was up 31.44 or 1.9 per cent at 1,670.23.

MOSCOW moved on from Friday's peak. The RTS index closed another 3.70 to the good at an all-time high of 366.22.

Written and edited by William Cochrane and Jeffrey Brown

FTSE Actuaries Share Indices

May 19 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2340.75	2340.94	2341.30	2341.54	2341.62	2341.32	2343.13	2342.61
FTSE Eurotrack 200	2376.51	2376.16	2375.56	2375.18	2375.36	2374.55	2373.53	2375.03

THE EUROPEAN SERIES

	May 16	May 15	May 14	May 13	May 12
FTSE Eurotrack 100	2352.25	2328.95	2328.47	2315.77	2294.96
FTSE Eurotrack 200	2382.24	2367.57	2370.98	2360.31	2342.13

Base value 1000 (26/10/90); High/day: 100 - 2343.79; 200 - 2378.63 Low/day: 100 - 2339.60 200 - 2367.88. † Partial.
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EUROPEAN EQUITIES TURNOVER
Monthly total in local currencies (bn)

Bourse	Jan 1997	Feb 1997	Mar 1997	Apr 1997	US $bn
Belgium	158.37	151.79	153.54	139.44	3.90
Denmark	66.21	52.80	47.33	34.95	5.31
Finland	32.54	31.11	21.61	24.80	4.77
France	356.90	368.93	377.84	331.76	56.87
Germany	260.32	242.45	339.99	245.86	141.92
Italy	131,692	83,656	74,340	61,804	36.12
Netherlands	84.90	88.10	81.40	72.70	37.33
Norway	61.40	56.80	43.06	53.20	7.48
Spain	3,300.98	3,303.78	2,778.54	3,324.38	22.77
Sweden	220.20	208.64	179.82	193.76	24.71
Switzerland	56.25	57.27	54.08	53.62	36.40
UK	77.72	82.53	78.85	n/a	n/a

Volumes represent purchases and sales.
Italian data adjusted to include off-market trading. Some figures may be revised.
Source: NatWest Securities

European equity turnover, excluding the UK, fell 15.3 per cent in April in D-Mark terms. Mr James Cornish, of NatWest Securities which produces the figures, says that markets were responding to the 10 per cent downwards correction in US blue chips on rising fears of a US rate increase. The biggest fallers in turnover terms were Germany, Italy and France, with falls of 27.7 per cent, 16.9 and 12.2 per cent respectively: Italy although Prime Minister Prodi won a number of parliamentary skirmishes; and France, as the bourse began to absorb the unsettling implications of the parliamentary elections called by President Chirac. UK and SEAQ International figures were missing due to a recurrence of computer problems at the London Stock Exchange.

Golds drag Jo'burg down

Gold shares were back on the ropes in Johannesburg yesterday, sliding steeply lower on the back of a weak bullion price and dragging the rest of the market down in sympathy.

The golds index came off almost 3 per cent, down 35.5 to 1,192.8 as bullion fell back, and showed signs of wanting to slip below its widely seen support level of $340.

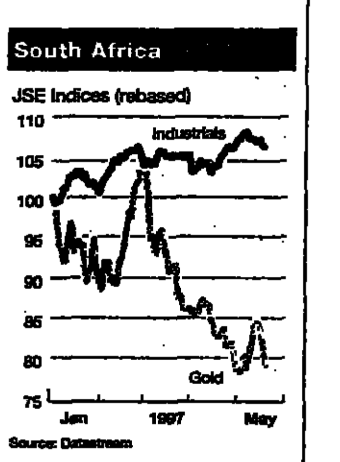
Volumes were described as relatively healthy. "There was some very solid sell orders. Golds took a knock across the board. It's very jittery, very volatile out there," said one broker.

In spite of an upturn for bonds and the rand, the heavy overnight falls on Friday on Wall Street set a weak tone at the opening bell. The subsequent slide for bullion cut some leading gold stock to ribbons. Vaal Reefs fell R6 to R260 and Kloof R1.40 to R29.50.

Industrial shares were also flat, with the result that at the close the all-share index was 26.2 lower at 7,116.6. Wall Street opened steadily enough but this came too late to reverse a morning of aggressive selling.

Industrials were not helped by a disappointing set of results from Barlow, which gave up 55 cents to R48.85 in heavy two-way trading. The industrial index ended with a fall of 22.7 at 8,398.5.

South Africa



Source: Datastream

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1997	% change sterling † Start of 1997	% change in US $ † Start of 1997
Austria	+0.46	+4.85	+13.72	+10.97	+5.42	+0.88
Belgium	+0.99	+4.45	+32.57	+20.40	+14.25	+9.33
Denmark	+4.24	+8.32	+44.91	+21.07	+15.68	+10.70
Finland	+2.16	+8.92	+55.51	+23.25	+16.19	+11.19
France	+4.92	+8.00	+30.51	+19.14	+13.43	+8.53
Germany	+1.21	+6.79	+40.55	+23.50	+17.40	+12.35
Ireland	+2.07	+7.14	+30.35	+18.41	+11.53	+6.72
Italy	+1.91	+2.73	+19.36	+20.51	+14.54	+9.62
Netherlands	+1.56	+6.93	+40.05	+21.95	+15.74	+10.75
Norway	+0.81	+2.82	+33.30	+13.45	+7.44	+2.82
Spain	+2.05	+11.07	+58.01	+23.75	+17.67	+12.61
Sweden	+1.54	+6.39	+45.98	+19.42	+11.77	+6.96
Switzerland	+2.91	+9.48	+41.92	+30.09	+28.62	+23.08
UK	+1.09	+7.69	+21.41	+11.80	+11.80	+6.99
EUROPE	+1.91	+7.43	+31.55	+18.45	+15.03	+10.07
Australia	+0.33	+4.58	+15.25	+6.54	+8.56	+3.88
Hong Kong	+0.49	+9.76	+16.87	-1.89	+2.48	-1.94
Indonesia	-4.87	-0.23	n.a.	+1.47	+2.81	-1.61
Japan	+1.42	+8.15	-9.41	+2.69	+8.01	+3.35
Malaysia	-6.68	-7.14	-9.25	-16.38	-11.14	-14.96
New Zealand	+0.21	+2.93	+9.28	-2.36	+0.13	-4.20
Philippines	-3.35	-14.29	n.a.	-24.32	-21.12	-24.52
Singapore	-0.53	+0.36	-5.67	-5.79	-3.83	-7.98
Thailand	-12.71	-28.39	-65.83	-37.06	-34.81	-37.62
Canada	+0.22	+7.63	+23.48	+6.26	+11.07	+6.28
USA	+0.59	+8.05	+23.86	+11.25	+16.25	+11.25
Brazil	+0.72	+8.16	+64.72	+37.86	+40.28	+34.24
Mexico	+0.96	+2.77	+17.56	+15.11	+20.00	+14.83
South Africa	-0.53	+1.53	+2.75	+7.96	+17.93	+12.86
WORLD INDEX	+0.98	+7.52	+17.23	+10.86	+13.54	+8.65

† Based on May 16th 1997. © Copyright, FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. 1997. All rights reserved.

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MAY 16 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY MAY 15 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	231.22	0.4	209.35	168.56	203.65	198.57	0.6	3.85	230.25	208.10	168.98	203.29	197.42	231.52	188.44	207.11
Austria (24)	191.58	0.4	173.46	139.66	168.73	168.68	0.1	1.88	190.84	172.48	140.06	168.50	168.45	195.04	174.70	185.75
Belgium (26)	248.94	0.0	225.39	181.47	219.25	214.74	-0.2	3.33	248.96	225.00	182.71	219.81	215.25	248.96	206.70	207.79
Brazil (30)	254.62	1.1	230.54	185.62	224.26	500.13	1.0	1.43	251.98	227.73	184.92	222.48	495.12	258.86	162.65	165.50
Canada (113)	201.77	0.6	182.86	147.09	177.71	200.22	-0.4	1.95	200.57	181.28	147.20	177.09	201.05	203.31	154.12	163.72
Denmark (32)	389.62	1.4	352.77	284.03	343.16	341.88	1.1	1.48	384.32	347.34	282.05	339.32	338.15	389.62	292.48	292.48
Finland (26)	273.12	1.4	247.29	199.10	240.55	292.84	0.8	1.56	269.36	243.44	197.68	237.82	290.41	273.12	186.57	190.01
France (91)	232.34	0.5	210.37	169.38	204.64	207.98	0.3	2.72	231.12	208.88	169.61	204.06	207.40	232.34	186.94	185.25
Germany (58)	213.45	1.3	193.26	155.80	187.99	187.99	1.0	1.51	210.77	190.49	154.68	186.09	186.09	213.45	167.18	167.41
Hong Kong (65)	497.23	-0.1	450.20	362.47	437.93	494.01	-0.1	3.09	497.73	449.84	365.27	439.46	494.45	514.49	407.55	425.58
Indonesia (27)	224.51	-0.4	203.27	163.66	197.73	335.58	-0.6	1.70	225.39	203.70	165.41	199.00	337.72	-	-	-
Ireland (16)	350.98	0.4	317.76	255.84	309.10	324.16	0.8	3.01	349.44	315.82	256.45	308.53	321.57	350.96	270.08	275.08
Italy (58)	91.52	0.8	82.86	66.71	80.60	114.26	0.6	2.20	90.76	82.03	66.61	80.13	113.62	96.32	73.28	82.35
Japan (485)	133.40	1.6	120.79	97.25	117.49	97.25	0.9	0.81	131.34	118.71	96.39	115.97	96.39	159.23	107.57	159.23
Malaysia (107)	512.95	0.6	464.43	373.93	451.78	490.63	-0.1	1.28	510.10	461.02	374.35	450.38	490.95	560.85	510.10	563.03
Mexico (27)	1400.73	0.4	1268.24	1021.11	1233.68	12084.87	0.2	1.21	1395.63	1261.35	1024.23	1232.24	12057.77	1445.88	1110.35	1267.37
Netherland (19)	372.29	0.1	337.08	271.39	327.89	323.63	-0.1	2.42	371.84	336.06	272.89	328.31	324.03	372.95	279.88	294.65
New Zealand (14)	87.92	0.0	79.61	64.10	77.44	87.34	0.2	4.27	87.94	79.48	64.54	77.64	87.21	95.60	75.94	79.76
Norway (41)	303.87	0.8	275.13	221.52	267.63	290.60	0.5	2.12	301.48	272.46	221.25	266.19	289.12	321.23	243.72	243.72
Philippines (22)	153.70	-2.2	139.16	112.05	135.37	201.99	-2.3	0.92	157.23	142.10	115.39	138.82	206.70	-	-	-
Singapore (42)	386.35	-0.8	349.81	281.64	340.27	254.96	-0.9	1.11	389.45	351.98	285.81	343.85	257.39	448.01	360.06	416.43
South Africa (44)	359.37	-0.2	325.38	261.97	316.51	351.46	-0.3	2.42	359.96	325.33	264.17	317.82	352.47	370.12	301.49	359.14
Spain (35)	247.51	-0.7	224.10	180.43	217.99	268.03	-0.9	2.44	249.21	225.23	182.89	220.03	270.55	249.45	171.81	174.44
Sweden (49)	451.26	-0.6	408.58	328.96	397.44	509.29	-0.2	2.05	454.06	410.37	333.23	400.90	510.45	454.06	334.35	348.06
Switzerland (35)	293.62	1.3	265.84	214.04	258.60	258.36	0.3	1.30	289.77	261.88	212.65	255.84	257.66	293.62	229.36	233.28
Thailand (43)	59.76	-0.6	54.11	43.57	52.63	60.00	1.6	5.20	60.15	54.36	44.14	53.11	59.06	180.09	59.76	178.82
United Kingdom (211)	302.96	0.1	274.30	220.85	266.83	274.30	0.2	3.57	302.78	273.65	222.20	267.33	273.65	303.18	229.63	230.37
USA (652)	335.79	-1.4	304.08	244.78	295.74	335.79	-1.4	1.82	340.47	307.71	249.86	300.61	340.47	340.47	254.79	271.10
Americas (822)	307.27	-1.2	278.21	224.00	270.63	258.64	-1.3	1.82	311.13	281.19	228.33	274.70	262.01	311.13	233.09	247.73
Europe (725)	263.79	0.4	238.84	192.30	232.33	242.19	0.3	2.60	262.67	237.39	192.77	231.92	241.51	263.79	204.71	207.39
Nordic (150)	390.61	0.1	353.67	284.75	344.03	351.17	0.2	1.90	390.11	352.57	286.29	344.43	350.38	390.61	291.45	297.16
Pacific Basin (882)	150.79	1.2	136.53	109.92	132.81	110.56	0.7	1.29	149.00	134.66	109.35	131.55	109.82	171.79	127.18	171.79
Euro-Pacific (1607)	197.93	0.8	179.21	144.29	174.32	160.24	0.5	2.01	196.41	177.51	144.14	173.42	159.50	197.93	173.55	186.51
North America (765)	327.60	-1.3	296.62	238.82	288.53	326.81	-1.3	1.93	331.86	299.93	243.54	293.00	331.21	331.86	248.65	284.44
Europe Ex. UK (514)	236.84	0.6	214.44	172.65	208.60	219.48	0.3	2.05	235.35	212.70	172.72	207.79	218.81	236.84	185.65	189.70
Pacific Ex. Japan (397)	301.91	0.1	273.35	220.09	265.90	262.48	0.0	2.82	301.76	272.73	221.46	266.43	262.45	320.65	268.97	289.64
World Ex. US (1821)	200.99	0.6	181.98	146.52	177.02	166.29	0.4	2.00	199.50	180.30	146.41	176.14	165.60	200.99	176.94	187.74
World Ex. UK (2262)	238.08	-0.3	215.56	173.56	209.69	208.95	-0.5	1.74	238.72	215.75	175.19	210.77	209.97	238.72	199.58	211.69
World Ex. Japan (1988)	300.40	-0.6	271.99	218.99	264.58	269.30	-0.7	2.15	302.21	273.13	221.78	266.82	291.27	302.21	233.10	243.69
The World Index (2473)	243.81	-0.2	220.57	177.59	214.56	214.87	-0.4	1.92	244.18	220.68	179.20	215.59	215.77	244.18	202.32	213.42

PLEASE NOTE: Amendments to indices 16/5/97 applied to Australia, related regional indices and The World Index. Latest prices were unavailable for this edition.